

1941

The Contributions of Richard T. Ely to Economic Thought.

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THE CONTRIBUTIONS OF RICHARD T. ELY TO ECONOMIC THOUGHT

A Dissertation

Submitted to the Graduate Faculty of the
Louisiana State University and
Agricultural and Mechanical College
in partial fulfillment of the
requirements for the degree of
Doctor of Philosophy

in

The Department of Economics

By

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ACKNOWLEDGEMENT

I wish to acknowledge my appreciation for the helpful criticisms extended me by certain members of the Graduate School Faculty of Louisiana State University. Harlan L. McCracken, Head of the Department of Economics, has supervised the work, read and evaluated the manuscript, and offered many valuable ideas. James B. Trant, Dean of the College of Commerce, Stephen A. Caldwell, Professor of Economics, T. Lynn Smith, Head of the Department of Sociology, and James A. McMillen, Professor of Library Science, have made suggestions that proved helpful. Through personal interviews and correspondence I have received some help in the work from Richard T. Ely, himself. For every suggestion and criticism I am deeply grateful.

S. E. Cranfill

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ABSTRACT

The primary purpose of this study is to analyze the writings of Richard T. Ely and present his basic System of Economic Thought in comparison and contrast with his contemporary economists. The brief biographical sketch aims to point out the major events and influences in his life that definitely helped to determine his thinking and the course of his activities.

Ely's political economy was broad in its approach and inclusive in its materials. It was the science of wealth-getting and wealth-using, but, first of all, it was a science of human relationships. Ely allied economics closely with sociology, law, ethics, history, psychology, philosophy, and religion. In fact, it dealt with any and all social phenomena, but from an economic point of view. It was viewpoint that distinguished it from the other social sciences. He looked upon sociology as the science which dealt with society as a whole. Economics and the other social sciences were specialized fields of this larger science. Ely, who acknowledged Karl Knies as his master, was trained in German universities in an atmosphere of the Historical School of economic thought. He followed what he has called the look and see method which included induction, deduction, observation, experimentation, statistics, careful historical analyses, and any combination of these methods, so long as he got at actual conditions and facts of life.

Ely was familiar with the classical economic doctrines of value which explained value in terms of the amount of labor embodied in the commodity, the amount of labor commanded by the commodity, or the labor and capital costs which went into the good, but he leaned heavily in the direction of the Austrian School of thinkers who believed that value was in the minds of the buyers. Utility and scarcity were the basic factors

in market value. Production was the creation of utility, and production was not only by man but for man. Utility determined value in the market -- over short-run periods of time, although costs had their influence, indirectly, and, over long-run periods of time. In the long-run, if marginal producers could not get their costs back in the sale price of the goods, a sufficient quantity of goods would not come into the market to supply the desires of the demanders for the goods. Marginal producers were those who would withdraw from production, or, materially reduce their production, unless prices in the long-run were high enough to cover all of their expenses including necessary profits. The amount of costs that one had expended upon a product had nothing in itself to do with the value of the product. It was the value of the product that induced the costs to be incurred.

As to economic rent Ely was in his early writings a close follower of Ricardo. He believed that, as population increased and the demand for more and more products of land arose, the land-owners would cultivate poorer and poorer grades of land. As these poorer kinds of land came into cultivation, rent arose on the better grades, and was measured by the difference in productivity of these better grades compared with that land whose product sold on the market for an amount barely sufficient to pay the costs of production. In his later writings Ely came to feel that land, especially urban land, was becoming more and more like capital, on account of all the elements which man had to put into it in order to make it useful for specific economic purposes. As to interest Ely held to an agio or time-preference theory that interest had to be paid as a reward for waiting in order to induce men to save. As to profits in the competitive field of business, Ely thought they were partly residual, partly payments for special abilities and determined somewhat like rent, and

partly due to luck and chance (conjuncture). In the field of monopoly, profits appeared as a surplus value over and above the costs of production of the goods. Wages were determined largely by bargaining, somewhere between the standard of life (the number and character of the wants which a man considered more important than marriage and family) and the discounted value of the marginal product of the workers employed.

Ely's major contribution was perhaps in connection with what he called Institutional Economics. There were five social institutions which Ely called fundamentals of first rank: Property, Inheritance, Contract, Vested Rights, and Personal Conditions. There were also five forces which operated upon these five institutions to bring about distribution and to determine value. Ely called these the fundamentals of second rank: Custom, Competition, Monopoly, Authority, and Benevolence. The overlapping and interacting fundamentals always played a significant part in all economic transactions, especially in commodity prices, rent, interest, and wages. General welfare always took precedence over individual benefits. If any of these institutions or fundamentals got so much out of line that undue advantages in bargaining were given to any particular group of individuals in society, it became the obligation of the State and its agencies such as the legislature and the courts to step in on the side of the weak bargainers. No value could be fair or reasonable and no distribution could be just if the social institutions became so maladjusted as to render the contracting parties unequal in bargaining strength.

Ely believed in social progress toward a condition under which each member of society secured equal opportunity to develop to the full extent of his capacity. All members of society were mutually inter-dependent and equally responsible. This doctrine Ely called social solidarity. - Christian religion, with its doctrines of the fatherhood of God and the

brotherhood of man, furnished the cement for this national or world unity. A nation made progress when it approached this concept of a great democratic brotherhood based upon the Golden Rule, but it failed to progress when it moved away from this concept of essential equality of opportunity. Ely was, therefore, vitally interested in all social movements as trade unionism, socialism, tax reforms, and social legislation. Ely's economics was definitely teleological. The State with all of its institutions - coordinated and cooperating should be ready to step in on the side of the weak and to check the strong when the latter showed any tendencies to exploit or harass the weak. Man, through the institutions and fundamental forces at hand, could largely control his own economic destiny by understanding and working along with natural and social forces.

INTRODUCTION

This dissertation is not a biography. The author will, therefore, sketch in the introductory chapter, only those events which have significant bearing upon the economic thinking of Richard T. Ely. Effort is made to interpret him in the light of the great social movements in which he actively participated. There will be no attempt to condemn or defend him as a man. The central aim is to analyze critically, without bias, Ely's own works, and to compare his ideas with other economists, especially his contemporaries. The author hopes to arrive at some definite conclusions in regard to Ely's viewpoint, central purpose, and methods. Primarily the purpose is to present in a unified and coherent manner, Ely's Economic System to which he frequently referred in his writings. The following conditions make the task difficult: Ely has been a very prolific writer, has been vigorously attacked and defended, has lived a long active life, and since Ely is still living, no one heretofore has made serious effort to evaluate his writings.

Chapter I

BIOGRAPHICAL SKETCH

Richard T. Ely was born in the year 1854, at Ripley, New York but spent his youth in Fredonia, New York, where his parents moved in 1856. He descended from the family of Old Lyme, Connecticut, and was the fifth Richard in direct line from the first Richard who settled there sometime between 1660 and 1670. The heritage and traditions built up since 1660 became a strong and inescapable influence in his life. He wandered over the world and lived in various parts of the United States, but he always remained a "son of New England, a Connecticut Yankee."¹

Ely's parents, Ezra Sterling and Harriet Mason Ely, were eager to help him gain an education. His home though often poor in material things was rich in understanding and affection, and in it he found hard work, and little money.

Fredonia, the town where Ely spent his boyhood, was a proud progressive, frontier town. In many respects it was New England transplanted. Ely spoke of it as a town of "firsts."² From Fredonia's culture he may have gotten many of his New England traits like a strong religious feeling, thrift, sincerity, and intense devotion to the land.

In the year 1872 young Richard finished Fredonia Academy and entered as a freshman at Dartmouth College. He succeeded in his academic work,

¹

R. T. Ely, Ground Under Our Feet, New York, Macmillan, 1938, p. 1.

²

Op. cit., p. 20.

but was suspended for participating in a student strike, over the issue as to whether the freshmen should attend a fourth class per day when the rules called for only three. He was reinstated, but entered Columbia College as a sophomore in 1873, and graduated in 1876. At the close of his senior year he won a three-year fellowship for graduate study, and decided to go to Germany to study philosophy, in order to discover the real truth.

In his undergraduate work he had pursued only one course in economics. This class had met for only one hour per week, and the text used was a very elementary book, Mrs. Fawcett's Political Economy for Beginners. Therefore, he had no idea of studying economics when he planned to study in Germany.

On June 7, 1877, Ely arrived in Hamburg. From there he went to Kiel where he studied German until September. He then entered the University of Halle. During his first year in Germany, he met Simon N. Patten, Edmund J. James, and Joseph French Johnson, young American students of political economy. It was Patten who introduced Ely to Professor Conrad. At the University of Halle, he became less and less interested in philosophy and decided to go to the University of Heidelberg to study economics for his major with political science and philosophy for his minor. In 1878, he entered Heidelberg where Karl Knies became his major professor.

Knies, a progressive economist who had a proper respect for existing institutions, became Ely's "master."³ Knies thought of economics as belonging neither to the natural nor to the mental sciences, but it was an historical discipline, having for its object the study of man in

society. Economics should be viewed in its relation to historical growth. This conception was shared with Wilhelm Roscher and Bruno Hildebrand and had wide-spread influence. These three men were credited with the founding of the historical school of economic thought. In 1879 Ely was awarded the doctor of philosophy degree summa cum laude. After spending five months in Switzerland he returned to his studies at the University of Berlin for his third year of fellowship work. Here he studied under Professors Ernst Engel, Director of the Royal Statistical Bureau, and Adolf Wagner, and learned much about statistical methods from Engel. Although Ely spoke of Knies as master he gave much credit for inspiration and instruction to Professor Wagner's writings.

Ely believed in the superiority of German over American universities because the former required a student to possess a more thorough background in mathematics, history, language, and literature than did the latter. The German university, furthermore, was a professional school in which men studied to earn a living whereas the American institutions were not. German students kept in mind the comprehensive examination, the successful passing of which admitted them to the professions and higher paid civil service jobs. Specializing with this examination in view graduate students took only those subjects which contributed directly to the adequate preparation for it. German universities offered students much freedom since the men were selecting their own professions, and the only public control consisted of the fact that the state prescribed minutely the content of the final examination.

Certain events of special significance for Ely happened while he remained at Berlin. He attended the Congress of Berlin, and was greatly impressed by British diplomacy under Disraeli. He also met and formed a close friendship with the President of Cornell University, Andrew D. White, who was at that time on leave of absence from Cornell to serve as

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minister to Germany. For White young Ely did his first research work, and made two important studies. One concerned the administration of the city of Berlin, and the other investigated the purchase of the railways by the German state. The latter report helped to secure Ely's first teaching position at Johns Hopkins University. In addition to those two studies made for President White, Ely wrote an article on German higher education for Harpers Magazine.

In midsummer of 1880 he returned to the United States and spent the following year looking for a job. This was a trying year during which time he tramped the streets of New York and even contemplated suicide, but he struggled on and help came.⁴ Even before Ely secured his job in the United States he had decided to be a social reformer. When he contrasted New York City with Berlin and Liverpool, the painful contrast made him want to take the next boat back to Europe. He vowed to do whatever he could to bring about better conditions. Youthful ambitions were high.⁵

The search for a job ended happily when Ely became the first fulltime lecturer in economics at Johns Hopkins University on a salary of \$1200 per year. Here he was employed for eleven years, "free of outside interference, in an ideal atmosphere of friendly cooperation with students and teachers alike."⁶ In this period he wrote seven of his major books and "more articles than I can now see how I had time to write."⁷ His first book, French and German Socialism in Modern Times, appeared while he was

4

Op. cit., p. 385.

5

Op. cit., p. 65.

6

Op. cit., p. 165.

7

Op. cit., p. 165.

in his twenties and two years after his appointment at Johns Hopkins.

Often Ely referred to himself as a born rebel. In his early writings - especially, his critics considered him a heretic. He aligned himself with a group of economists, Young Rebels, all of whom had studied in Germany: H. C. Adams, J. B. Clark, E. J. James, Simon N. Patten, and E. R. A. Seligman. These young men were deeply conscious of the fact that they were human beings as well as economists, and that they were engaged in the task of furthering a science which was first and foremost a science of human relationships. They felt the urgent necessity for uniting into a solid group in an effort to break the crust which had
8
formed over economies.

Up until this time little attention had been given in the United States to systems of political economy. The American nation had been too busy doing things to take time to explain them; there was something of contempt for economic theory in general. The difficulties attendant upon logical and systematic thought were often shirked, or not even realized. A United States Senator once announced that he had given his leisure time for an entire fortnight to the currency question and had sounded its depth. Ely and this group of young economists not only met opposition from special interest groups, but also from the older orthodox economists. The Young Rebels did not hesitate to condemn malpractice wherever they found it--paternalism in business, corruption in municipal government, waste of natural resources, abuses of labor, or orthodoxy among college professors.

Ely's attitude toward paternalism in business found expression in the conclusion of a study made in 1884 for Harpers Magazine, concerning

the Pullman housing experiment. Outwardly Pullman showed great improvement over most industrial housing situations, but Ely found it un-American. It was a benevolent, well-wishing feudalism, which desired the happiness of the people, but in such a way that would please the authorities. He felt the body was more than raiment and the soul was more than the body. No race of men reared as underlings with the spirit of menials, could preserve free American institutions.

Early in his career Ely entered the capital and labor controversy. He plunged in to make a road through the trees in order to get a glimpse of the forest. When he wrote The Labor Movement in America, he thought he was fulfilling a mission and was making a real contribution to human affairs. The theme of the book treated the labor movement as a struggle of the masses for existence. A marvelous war in which millions were engaged, was being waged in the heart of modern civilization, and the welfare of humanity depended upon its outcome.

In connection with this book Ely was bitterly attacked in The Nation by Simon Newcomb, a teacher of mathematics and economics at Johns Hopkins and the Naval Academy, as well as an author of a textbook on economics. He branded Ely as a socialist and anarchist. Newcomb in a review of The Labor Movement in America, expressed the opinion that labor discontent was perennial in human nature and was bound to continue; society could do nothing about it, and it would be no more harmful in the future than it had been in the past. The book showed a most remarkable lack of logical acumen and narrowness of view for a university teacher, an intensity of bias and bitterness toward all classes of society except one, genuine puerility of tone and treatment, scrappiness of narrative, ravings of an anarchist or the dreams of a socialist, and lacking real interest.

As a final thrust he asserted that "Ely seems to be seriously out of
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place in a university chair."

On the other hand, both the religious and labor press received
The Labor Movement in America with favorable comment. So did such
economists as F. W. Taussig, E. R. A. Seligman, and J. B. Clark. The
historians who were not bound by the traditions of classical economics
were more favorable even than the economists. These men included C. K.
Adams, H. B. Adams, A. D. White, and F. J. Turner. Nor did President
Chamberlain of the University of Wisconsin agree with Newcomb. These
attacks upon Ely attracted considerable attention. John R. Commons, for
instance, read Newcomb's bitter lambast, and decided to go to Johns
12
Hopkins to study economics. In these early difficulties Ely stood
firmly for certain principles, and wanted his fellow-economists to accept
his leadership. This insistence made for him many enemies, but the uni-
versity authorities always stood by him. Perhaps, if he had been more
conciliatory and appreciative of the work that was being done by other
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economists, he might have had more whole-hearted support.

The most fundamental issues between the Young Rebels and the ortho-
dox group centered around the scope and methods of economics, the doc-
trine of laissez faire, and free trade. The orthodox group held that
economics was a science built upon certain natural laws, that applied

11

Simon Newcomb, "Review of the Labor Movement in America," The Nation, 1886.

12

Leading orthodox economists were Amasa Walker, Arthur L. Perry, D. A. Wells, Francis Bowen, Francis Wayland, W. G. Sumner, F. A. Walker, and William Godkin.

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Ely said, "Alas! I cannot wholly absolve myself from the sin of having adopted the attitude of holier than thou." Ely, Ground Under Our Feet, p. 176.

to all times and in all places; the Young Rebels believed that all economic laws were qualified by time and place. It was the doctrine of absolutism versus evolution and relativity. Orthodox economics was exact, simple, and easy to master; the new concept made it complex, and not only difficult to analyse and understand, but also hard to apply. Belief in laissez faire was used to decide whether a man was an economist at all or not. Among those who deemed themselves the guardians of the true faith, it was considered far better that one should know nothing about economic literature, and have no interest in the subject, than that with any amount of learning and any degree of honest purpose, he should have adopted views varying from the standard that was set up.¹⁴ This statement from Walker clarified what was meant by the crust which had formed over American economics, and also showed why Ely placed so much significance upon the organization of the American Economic Association.

The organization call for the American Economic Association went out over the names of H. C. Adams, J. B. Clark, and Richard T. Ely, and on September 8, 1885, the first meeting assembled at Saratoga, New York. — Less than fifty people attended this first meeting, but it included all the young economists who were especially enthusiastic over the new organization. From 1885 to 1894, Ely, the first secretary, was largely responsible for formulating its aims and objectives as well as for its early publications. From 1900 to 1902 he served as president. The — American Economic Association afforded an opportunity for like-minded men to offer a more or less formal protest against the dogmatism of orthodox economists, and furnished a cooperative basis for breaking up the crust that had already formed over the science. Rather than attempting

¹⁴p. A. Walker, "Opening Address, Third Annual Meeting of the American Economic Association," Publications of the American Economic Association, Volume IV, pp. 254-5.

to set up a creed, they sought to register effective protests against the doctrine of laissez faire, against the concept that economic laws were natural laws like those in physics and chemistry, and against the concept that social life had to be left to the free play of natural forces. These character members regarded the state not as a necessary evil but as a great and powerful social force for attaining certain desired ends.

The new organization had an inclusive as well as exclusive aim--to assemble like-minded and congenial men, who could work together profitably. At first every economist was not asked to join, although no economist who expressed a desire to join, was refused enrollment. One group was striving for righteousness, while another element perhaps laid more emphasis upon earnest thought. Everyone was animated by the love of truth for its own sake. To do things practically and scientifically, to get results was undoubtedly a dominant objective.

The sterility of the "old economics" depressed those who had tasted the new and living economics taught in the German universities. The Young Rebels became weary of the controversies, the wordy conflicts over free trade and protection, and the endless harangues over paper money which seemed to savor more of political partisanship than scientific inquiry. They had little patience with the press which preached conceptions of orthodoxy and they prepared to fight these conceptions as not belonging to the realm of science. They felt denied the right to exist scientifically, and believed this denial proceeded from certain older men who were able to exercise a very large influence over thought, particularly in university circles. They determined, moreover, to inject "new life into American economics."

The organization of the American Economic Association produced a feeling of jubilation similar to that of an emancipation proclamation.

15

Ely, Ground Under Our Feet, pp. 143-4.

16

Op. cit., p. 132.

The Young Rebels felt that the old political economy had opposed the recognition of any ethical element in economic life, and taught that all social reform was futile. It had exalted into a principle of economic righteousness the unrestrained pursuit of self-interest by the individual, and almost deified a monstrosity known as the economic man. Economics was teaching the doctrine of laissez faire as a law of beneficent providence, and contending that free trade should be received as a practical application of the command, thou shalt not steal. Thus, inconsistently, an ethical principle was admitted as all-controlling. Ely found very little support for such views in the writings of the great economists, but a false and undue emphasis of certain teachings of the masters had led to this misapprehension. To a large extent popularization and the exigencies of practical politics, had caused this one-sided development. The members of the American Economic Association recognized these evils, and proposed to test by actual observation the situation of wage-earners, free trade, and protection. They proposed to test conclusions scientifically and not dogmatically and declared that economics embraced the whole of the economic life. This simple message which, perhaps, no one would now think necessary to proclaim, produced a great impression and aroused an enthusiasm which no one could understand except in the light of the situation of 1885.

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Ely looked upon the founding of the American Economic Association as an important achievement. Before this event economic thought in the United States led up to it, and out of it have flowed important progress. It served to quicken young and old, by recognizing the young men and by

¹⁷Op. cit., P. 145.

especially stimulating improvement in statistical work and methods. Although a few of the younger economists greeted the formation of the association with enthusiasm, there were others, especially the older economists, who did not comprehend the real significance of the new era in the history of American economics.

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The rebel attitude of young Ely led to bitter attacks upon him by the money interests. He was accused of being a socialist and anarchist by Oliver E. Wells, State Superintendent of Education for Wisconsin. In the year 1894, a committee of the regents of the University of Wisconsin tried Ely upon charges by Wells of participating in labor strikes and of teaching socialism in the university classroom. From all parts of the United States, friends and former students came forward in his defense. Ely was acquitted in this formal trial and continued in his regular work at the University of Wisconsin until he was retired because of his age in 1924. In fact, the committee which tried him stated formally that it would be the future policy of the University of Wisconsin to defend all independent search for truth.

Ely left the University of Wisconsin and moved to Chicago, in order to devote all of his time to the directorship of the Institute for Research in Land and Public Utilities, an organization which he founded in

¹⁸C. F. Dunbar of Harvard University said: "The difference between the old school and the new is essentially a difference of emphasis or of relative weight given to the historical side of the subject and not a radical change of method in arriving at economic truths The old political economy, it is declared, was atomistic, and dealt only with individuals; that of the future must be social, and must take the given society, not the individuals composing the society, as its unit for laissez faire is to be substituted a system of direct and pervasive, although carefully studied, interference." Ely, Ground Under Our Feet, pp. 150-1.

(N. B. Insert this at bottom of page 11 after the period in the last line).

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In fact, when Ely went to the University of Wisconsin, he left Johns Hopkins University in a spirit of anger and rebellion. In his autobiography he wrote with almost extravagant praise of Johns Hopkins and its first President, John Coit Gilman, saying that the use of the University's funds¹ were guided by the principle: "Men, not bricks and mortar," and, "millions² for genuine research but not one cent for show." He spoke of this university as having "an inspiring atmosphere in which research and love of unfolding³ truth were richly fertilized." But after eleven years at Johns Hopkins University Ely became dissatisfied because he was not promoted to a professorship. In fact, he said that he became very angry with H. B. Adams and the university. Ely and Adams were both considering the matter of leaving Johns Hopkins to accept positions at the University of Chicago under President W. R. Harper. Adams talked with President Gilman about it, and secured his promotion to professorship where he was, but Ely did not. It was during this feeling of anger that he left Johns Hopkins to serve at the University of Wisconsin. Ely said, "This was one of the 'errata' of my⁴ life," because Adams really deserved the promotion more than he, since Adams was older than Ely, and since Adams had been with the university from its beginning. Furthermore, the university administration had always stood by Ely and protected him in his early years when the money interests were bitterly attacking him. In his later life he felt that he had acted rashly, and blamed himself for having taken such a non-conciliatory and⁵ unappreciative attitude toward his fellow-workers.

¹Ely, Ground Under Our Feet, p. 100.

²Ibid., p. 103.

³Ibid., p. 104.

⁴Op. cit., p. 176.

⁵Ibid., p. 176.

1922, while still a professor at the University of Wisconsin. He has referred to the founding of the Institute as an important phase of his economic work. Shortly after Ely established the Institute, Emil Oliver Jorgensen, Director of the Bureau of Information of the Manufacturers and Merchants Federal Tax League, bitterly attacked him in the book, False Education in Our Colleges and Universities: An Expose of Professor Richard T. Ely and His Institute for Research in Land Economics and Public Utilities. Jorgensen accused him of serving the money interests and monopolies, the very social groups which Ely attacked most vigorously in his youth.

Jorgensen declared that rich men financed the Institute and employed Ely to build a large organization of teachers and research men but instead of it being a true research agency, the Institute sought only such data as would support the conclusions which the wealthy men desired. He charged Ely of selling his good name as a scientist to make propaganda for real estate organizations and utility companies, and of writing the conclusions for all of the proposed research projects before the actual research began.

These charges came from the director of an organization whose sole purpose was to distribute propaganda for a tax program on land as opposed to tax levies on business. Ely strongly opposed the proposals of the Bureau of Information of the Manufacturers and Merchants Federal Tax League, and consequently drew the director's fire.

Under such circumstances one should perhaps not take the charges too seriously unless other evidences of guilt should appear. The author has not been able to find from reading Ely's writings much evidence to support Mr. Jorgensen's charges. On the contrary many of the quotations which Jorgensen used against him have been taken out of their setting

and given a meaning that Ely apparently never intended them to have. Even if one granted these charges, it would affect very little Ely's contributions to economic thought, because his major works, exclusive of those on land economics, were completed before the organization of the Institute.

Some people have said that Ely has been inconsistent in his doctrines. Others have said that as he grew older he changed his mind to a more conservative point of view. The young Ely appeared to be more of an heretic, rebel and reformer, while the old Ely appeared to be a conservative business man seeking endowments for his Institute for Research among the rich.

In his early writings he advocated government ownership of public utilities, while in his later writings he favored government control by commissions. His own explanation of this change of mind is to be found in the fact that at the time of his early writings the commission idea was not adequately developed. He reasoned then that it would be easier to develop government ownership than government control, but after government commissions had been perfected, and after it had been demonstrated that the temper of the American people favored such control, he, too changed his mind in favor of regulation rather than outright ownership.

In evaluating the contributions of Richard T. Ely, one ought to think of his writings, of the organizations which he helped to establish, and finally, of his work as a teacher. He has taught in four great American universities: Johns Hopkins University, University of Wisconsin, Northwestern University, and Columbia University. For the past fifty years most of his time has been spent in the classroom. Many successful

men have come from his classes,¹⁹ and he gave to his graduate students¹⁴ a high place in his work. He should, however, not be thought of as an ideal teacher.²⁰ Woodrow Wilson, one of his graduate students, characterized him as a hard worker, a conscientious student, with Schenck's Handbuch as his economic Bible, and that he needed an impulse from outside to get started. Ely denied that he had an economic Bible because he was too much of a born rebel and skeptic. Perhaps all of his teaching work has not been in the class room, for even Theodore Roosevelt once²² recognized Ely's influence over him.

It was in connection with his teaching and largely growing out of it, that he became a prolific writer and editor. The bibliography at the end of this dissertation shows that he was the sole author of twenty-five books, and was the leading co-author of nine additional volumes. Furthermore, he has published one hundred or more magazine articles which appeared in more than thirty different publications, besides editing one hundred volumes written by nearly as many different authors and published by three separate agencies. All of these writings have been in the field of social science, and quite definitely related to economics, as he conceived the science.

¹⁹The following men are some of the prominent leaders who have done graduate work in his classes or under his supervision: T. S. Adams, C. J. Bullock, David Kenley, J. E. Finley, C. C. Plehn, E. A. Ross, W. A. Scott, H. C. Taylor, O. E. Baker, H. L. McCracken, Davis R. Dewey, Owen D. Young, F. S. Deibler, John R. Commons, Albert Shaw, Woodrow Wilson, and many others.

²⁰Speaking of his students Ely said, "We have truly worked together and the hours I have spent in the class room with them have been among the happiest of my life their loyal attachment is one of my dearest possessions. To them I dedicate my book because it belongs to them first of all." Ely, Property and Contract, New York, Macmillan, 1914, Preface.

²¹Ely said of himself, "I was not a popular lecturer. If, as many believe, I had a message, I had to convey it to the world through my writings and my students rather than through my lectures." Ely, Ground Under Our Feet, p. 279.

²²Op. cit., p. 279.

His long and active life has cut across many significant social, political, and economic movements, many of which have been not only of nation-wide significance, but even of world-wide interest. ²³ He has served on many special commissions for investigation and has often been consulted on matters of great national import by no less personages than Woodrow Wilson, and Theodore Roosevelt.

Also growing out of his teaching and writing Ely has rendered another large service to the science of economics and to economic literature in the form of the famous Ely Library. Recently Louisiana State University, Baton Rouge, Louisiana, bought his library and set it up as a memorial to him. Ely collected in this library many rare volumes and first editions written by the leading economists of the world. It included not only the basic treatises of classical and present-day economics and land economics, but also all of Ely's own works.

In youth and in old age Richard T. Ely has always been a reformer in spirit, an optimist who felt great confidence in his program. Even now at the age of eighty-seven he has moved again into the city of his youth. Always inspired by an ambition to set the world right, he has lived as if he expected to die tomorrow, and worked as if he expected to live indefinitely. ²⁴

23

The following are some of the more important social movements in which Ely has participated: Modern Socialism and Communism; the Labor Movement, including the Knights of Labor, the American Federation of Labor, and the C. I. O.; The American Economic Association; The American Bureau of Industrial Research; The American Academy of Political and Social Science; The American Historical Society; The American Association for Labor Legislation; The American Institute of Land Economics; The National Consumers' League; The Child Welfare Committee; Concentration of Industry Known as the Monopoly or Trust Movement; Census Reform; Railway and Public Utility Regulation; Sound Money; Good Roads; Conservation; Crime Prevention and Treatment; Dependency; Social Reform; Social Legislation; Social Insurance; Cooperation; Civil Service Reform; Social Security; and the New Deal.

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Op. cit., p. 282.

CHAPTER II

VIEWPOINT AND METHOD

The key to the comprehension of any system of thought would depend upon an understanding of its viewpoint. To appreciate the Christian religion one should have the point of view of Christ -- love, a different kind of love from anything the world had known before His time, a love with Godward and manward aspects. Copernicus reversed the old way of looking at the earth, the sun and planets. The great lights of the world's history have given new points of view.¹ The same thing would be true in studying the contributions of an economist.

Perhaps every economic topic could be presented from several standpoints. Most orthodox economists have treated the social institutions of property and contract as one aspect of production, but Ely in one of his leading works, Property and Contract, related them to distribution. The whole science of economics might be developed from the viewpoint of any one of the four classical divisions of the subject: production, exchange, consumption, or distribution. It was difference in viewpoint that gave realism to German economics during the last quarter of the nineteenth century. The whole German university was closely linked not only with the government and its functions but also with practical phases of making a living. Both in England and the United States the situation was quite different.

By 1880 a number of fundamental issues of debate had arisen among

¹
R. T. Ely, Social Law of Service, New York, Eaton and Main, 1896, pp. 27-9.

economists: (1) the scope and aim of political economy, (2) the nature of economic laws, (3) the proper method of economic study, (4) the relationship between the individual and society, (5) the proper function of government in the social order, and (6) the economist's attitude toward reform. Training and viewpoint had much to do with the position an individual took in regard to these matters. The Young Rebels who had studied in the atmosphere of the German Historical School with its practical approach, arrayed themselves against the orthodox group, on each of these issues.

The rather barren political economy taught in the American colleges prior to the time of Ely was considered finished. Truly it had become a dismal science of dry bones. One could become an economist by reading a brief manual, such as Mrs. Fawcett's Political Economy for Beginners, or by devoting one's spare time to this field of study for a fortnight or so, as did the United States Senator referred to above. When one had mastered its simple principles, he could apply them in the same manner at all times and in all places, because they were natural laws, eternally fixed by the will of God. Too often political economists were mere doctrinaires. They assumed a simple type of human nature, called the economic man, who always sought his own selfish advantage, which, in turn, was supposed to promote public interest.

Early economists had been looking for natural and fixed laws. The orthodox group thought it had discovered the absolute truth and nothing was left but to learn it. In fact, this doctrine of absolutism became the test of a real economist, for those who believed it were called orthodox and those who failed to accept it were unorthodox. Free trade was the only sound policy whether regarded from the point of view of ethics or economics. A protectionist was either muddle-headed or dishonest

and corrupt. As one college professor of free trade economics put it,
the all-sufficient answer to the protectionist was, "thou shalt not steal."²

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Dogmatism characterized orthodox thinkers. They believed that social affairs were moving toward perfection through the natural order of things, and that the ideal would be attained by the free play of unrestrained social forces. All ills of society resulted from the interference with the free play of natural laws.

Out of the concept that God-willed natural forces, over which man had no control, determined society's destiny, the orthodox view centered upon the doctrine of laissez faire, as a basic policy. The economist could only search for and discover these laws, and then stand aside and watch them work. Under this type of system, economics had no aim, and an economist had no other function than to discover cause and effect. His function ceased when he had explained what was and why. What ought to be had no place in the science, and certain writers insisted upon a complete separation of economic phenomena from all other matters. According to F. A. Walker, political economy had to do with no other subject, than wealth. He warned the student not to allow any purely political, ethical or social consideration to influence him in his investigations. The sole task consisted of finding out how wealth was produced, exchanged,

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R. T. Ely, Ground Under Our Feet, p. 58.

³
A. L. Perry said, "The genus, then, with which Political Economy deals from beginning to end, has been discovered, can be described, and is easily and completely separable for its own purposes of science from all other kinds and classes and genera of things, namely, Salable things ... the sole and single class of things ... has to do with Valuables ..."
A. L. Perry, Principles of Political Economy, New York, Scribners, 1891, p. 7.

distributed and consumed. To decide how far the pursuit of wealth should be subordinated to other considerations became the business of the social philosopher, moralist or statesman. "The more strictly the several branches of inquiry are kept apart, the better it will be for each and for all," declared Walker.⁴

The economic scientist made a distinction between science and art. The former assumed nothing good or bad, accepted no advice, and undertook no defense. A true science dealt only with the relations of cause and effect within its own field. It did not assume anything desirable or undesirable nor did it arrive at any such conclusion. It had no business to offer precepts or prescriptions. Its sole concern consisted in tracing effects back to their causes, or in projecting causes forward to their effects.⁵

Over against the insistence of the orthodox economists that all of the proper premises of pure political economy consisted of not more than five or six certain facts of human nature, of human society, and of the physical constitution of the earth, the Historical School held that it was the province of political economy to explain all phenomena of wealth. This latter group took man under the actual conditions and circumstances in which he lived. No important influence on the production and distribution of wealth could be disregarded. Political economy became a work to which successive ages had contributed; it was never complete nor absolute. Its material accumulated in human experience, and it grew with the increasing knowledge of the races.

Ely, who acknowledged Knies as master, was trained in the atmosphere of this so-called German school, although he was familiar with the

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F. A. Walker, Political Economy, third edition, New York, Holt, 1888, p. 1.

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Op. cit., p. 19.

doctrines and viewpoint of the English school. As to the scope and aims of economics, he stood in bold contrast to the orthodox group. Indeed, it was in opposition to them that he appeared as a heretic and radical.

For Ely, economics was a part of sociology and involved an examination of the "nature, the development, and the desirable constitution of industrial society."⁶ The economist concerned himself with the arrangement, classification, and explanation of the facts of industrial life, and included not only a study of the forces that have been at work in the past to lead up to the present, but also of those forces at work in the present that would, in turn, largely determine the future. Industrial society was an organism and grew like a complex plant or animal. Economics was still in its infancy, incomplete and imperfect, but a very important body of knowledge. It was theoretical, practical and complex, yet a science rather than an art. Ely's viewpoint centered in what he called an ethical approach. He saw in the spread of the Historical School over the world a wave of humanitarianism. Of the many elements included in the new doctrines he primarily singled out the purpose or philosophy of life. With him the ethical aim came first, and it meant a "broad progressive spirit."⁷ Ely had both a negative and a positive outlook. He became rebellious against the old concepts and did not hesitate to offer constructive ideas toward improvements. The science of political economy always centered upon a goal -- man, with broad social connotations rather than individual applications. Economics dealt with an organic, not with an atomistic society. The Belgian, Emile de Laveleye, held to the same concept, namely, that political economy was

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R. T. Ely, Problems of Today, New York, Crowell, 1888, p. 106.

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R. T. Ely, Introduction to Political Economy, New York, Chautauqua Press, 1889, p. 120.

the science which determined what laws men ought to adopt in order that, with as little effort as possible, they might secure the greatest abundance of useful things for the satisfaction of wants, might distribute them justly, and might rationally consume them.⁸ The science prescribed rules and regulations for production, distribution and consumption of wealth that would render the citizens good and happy.⁹ The basic aim was to direct the social and economic growth of mankind. The potentialities of the civilized world were grand beyond historical precedent, and the use made of them depended upon the intellectual enlightenment and the ethical elevation of each generation.¹⁰

Ely was interested in developing what he called an Economic System of Thought, fundamentally based upon the concept of economic unity. Forces of life had expanded beyond the control of the individual. Division of labor made each national order collective and inter-dependent. There was large evidence of world-wide inter-dependence. Every economic system was like a mirror which reflected the aims and the time-spirit -- the entire life of the period, and of the place where it arose or received support.¹¹ Although Ely did not believe in socialism, it was for him an economic system. No one should feel it a reproach to accept socialism, if he sincerely believed it to be a better form of economic life than the present imperfect system. The possibilities of terrible disaster lurked in any serious attempt to suppress free and open inquiry. On the other hand, every step toward anarchy was a calamity, because

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Emile de Laveleye, The Elements of Political Economy, Translated by A. W. Pollard, New York, Putnam's Sons, 1886, p. 3.

9

R. T. Ely, Social Aspects of Christianity, New York, Crowell, 1889, p. 123.

10

R. T. Ely, The Labor Movement in America, p. 294.

11

R. T. Ely, Introduction to Political Economy, p. 31.

progress depended upon obedience to law. Anarchy was in essence rebellion, lawlessness elaborated into a philosophy, the sum and substance of all evils of a social nature.¹² The framework of his Economic System had three divisions: General Principles, Problems, and Public Finance. Upon this framework he built his Economic System with such topics as taxation, labor organizations, and socialism. In his treatment of Problems he emphasized policies largely. The first step in building an economic system consisted in the selection of a desirable goal. Only poor or inaccurate theory could lead to conflict between theory and practice. All scientific workers, furthermore, had to be more or less interested in theory -- large and sweeping generalizations with regard to the general nature of phenomena.

If one has kept in mind the basic conflicts between orthodox economists and the Young Rebels with regard to the scope and aims of political economy he can better appreciate their different viewpoints regarding the nature of economic laws.

As indicated above, absolutism characterized the theory of orthodox economists. Either they believed that economic laws were applicable at all time, or at all places at a given time, or else they believed both doctrines. They recognized no such thing as a separate national economy

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R. T. Ely, "Fundamental Beliefs in My Social Philosophy," Forum, Volume XVIII, 1894-5, pp. 173-82.

for different nations.¹³ Imbued with the ideas of relativity and evolution Ely felt contempt for such dogmatism. He believed that a policy of free trade might be good at one time, but protective tariff might be equally desirable at another time or in another place. The same thing was true with regard to any particular economic or social policy. He took little stock in the pretty dream of a perfect natural order of things brought about by the free play of unrestrained social forces. Two reactions, in general, had arisen toward this orthodox view. On the one hand was gloomy pessimism and on the other a determination not to let things drift. To this latter group Ely belonged. Man could and must, according to his lights, construct his social fabric from the materials at hand. He believed in a God who still judged the nations and who exacted, because of their greater opportunities, even more from them than ever before, but as to the natural forces of economics he took the attitude that, although man as an individual can not work against the great social forces which control life, he can seek to understand and work along with them and can direct them into different and better channels. He always believed that economic laws differed from the natural laws found in physics and chemistry.

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A. L. Perry said: "And let it be said in passing, that there is one consideration well-fitted to stimulate and to reward each patient and competent scientific inquirer, no matter what that science may be in which he labors, namely, this: Any just generalization, made and fortified inductively, is put thereby beyond hazard of essential change for all time; for this best of reasons, that God has constructed the world and men on everlasting lines of Order." Perry, op. cit., preface.

F. A. Walker declared himself to be ".... a Ricardian of the Ricardians, holding that the great thinker, who has given his name to the economic doctrine of rent, left little for those who should follow him to do; and that any wide departure from the lines laid down by him can only result in confusions and error." F. A. Walker, Land and Its Rent, Boston, Little, Brown and Company, 1883, preface.

Growing out of the argument over the nature of economic laws and the different viewpoints concerning the scope and aims of the science, the next major point of debate centered around the proper method to follow. Most of the orthodox thinkers followed the Classical School of Adam Smith, David Ricardo, and John Stuart Mill. They started with basic assumptions of universal application, namely, that man was fundamentally selfish, labor was always painful, nature was niggardly (or bountiful), human wants were unlimited as to variety and number, man was rationally choosing his own economic advantage, and that the economic choice of the individual always benefitted society. They relied quite largely upon deductive reasoning and concluded that their deductions were just as universal as their assumptions. To both the assumptions and deductions they gave the weight of natural laws operating in accordance with the will of God. They aimed mainly to develop a pure science and used so many abstractions that their critics have sometimes referred to them as Armchair Economists, who know nothing about the practical business world. The Historical School leaned toward the other extreme and relied almost wholly upon historical data and statistics. The latter group did not necessarily deny the basic assumptions, but questioned the universality of some of them and refused to depend upon the deduced natural laws. They insisted upon studying actual conditions rather than abstractions.

Ely followed neither group absolutely but developed what he has chosen to call the look and see method, which included deduction, induction, observation, description, and statistics. All of the Young Rebels who founded the American Economic Association believed in this method, at least to the extent of teaching it to their students. They were not interested in making political economy simple, but were willing to accept all the complex relationships that occurred in society. They

believed the deductive and inductive methods supplemented each other. With Ely all of the talk about method concerned surface matters and did not really get down to fundamentals. He was primarily concerned with life. He believed that economics had, in itself, the potency of life. Deduction had its place, particularly for the theorist, since deduction was essential for the widest generalizations, but it would not explain the world as it was. He believed that by opening his eyes he could look at the world and get new premises and new generalizations.¹⁴

As Head of the Department of economics at the University of Wisconsin for over thirty years Ely tried to apply his look and see method with graduate students. Graduate students ought to know how to make a living, but at the same time they ought also to have a broad practical approach to world problems. Classical economics could not provide such a result. Ely looked upon academic teaching alone as half-baked philosophy, but the practical extreme was nothing more than rule of thumb.¹⁵

In writing, Ely sought clarity rather than the appearance of depth through obscurity of meaning. He sought to be scientific by defining carefully each term, being painstakingly accurate in his analysis, and using caution in his synthesis. He considered accuracy to be more important than convenience. Since thoroughness was very important, he condemned brief economic manuals. They conveyed very little positive knowledge and provided numerous catchwords and rule of thumb methods. Such monographs made many people satisfied with a little learning, and led them to believe they had mastered the science of economics.

Specialization, according to Ely, had gone too far in economics, especially in the United States. When the science had been split up into

14

R. T. Ely, Ground Under Our Feet, pp. 153-4.

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R. T. Ely, "The Hoosier Economist; John R. Commons," The People's Money, January 1936, p. 63.

so many divisions that a dozen different men were carrying on researches along as many different lines without the slightest knowledge of each other's work or without having a complete view of the entire field, it was impossible to achieve effective results. Each one feared that he would not get sufficient credit for what he did and that cooperation might lessen his claims to originality. Too much of the specialized research work lacked adequate synthesis. Education should free itself of the curse of standardization and mass production that have been utilized in the great industrial corporations. Economic research had many difficulties, but for the good of society, the individual scientist and teacher ought to be willing to find and publish the truth even though he might be attacked and accused of serving the Interests. Often it would be easier to take up a cause and make propaganda for it than to search fearlessly for the truth.

Closely related to, and largely emanating from the discussion of the nature of economics and the proper method to be followed, another basic difference arose between orthodox economists and the Rebels. It centered around the question whether the individual or society was the proper unit of economic study. The Classical School had been atomistic in its approach. Adam Smith, for instance, believed the only way to make society rich was to make each individual rich. Many of the early economic writers worked on the apparent assumption that society was the mathematical sum of its individuals. Such a view the orthodox group seemed to approve. Ely's society was an organism, something over and above, and different from the sum total of its individuals. His economic man had a complex nature and often worked contrary to social interests. Sometimes it became desirable to curb individual activities and interests in behalf of general welfare. "Society is composed of individuals," declared Ely, "but individuals find

their true life in society." ¹⁶ In the case of conflict society's interests always take precedence over individual interests. The germs of a better future always exist in the present, but they require careful nursing and ¹⁷ do not develop spontaneously. In spite of the fact that individual welfare is important and should never be disregarded by the political economist, general welfare is always paramount and becomes the chief concern of any social scientist. Social science deals with all men rather than with an individual.

Concerning the function of the state in case of conflict between the individual and society, the Classical School again set the standard for Ely's opponents. For them the idea attributed to Jefferson that the best government governed least was satisfactory. In essence it was laissez faire. In addition to furnishing necessary public works the state should be limited to the services of policeman and umpire. The police-state insured protection and enforced contracts, while the umpire-state guaranteed that each participant would receive equality before the law. Ely felt that, at a given time, each state might effectively develop a different economic policy, or that, with the passage of time, a given state might profitably change from one policy to another. The state not only could fulfill a large function in economic society, but should, in the interest of general welfare, see that the ideal of equality of opportunity was secured for each citizen. One's opportunity should be limited only by his capacity.

Given in detail the opposite viewpoints mentioned above, one might readily guess what attitude each group would take concerning the proper

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R. T. Ely, An Introduction to Political Economy, p. 14.

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R. T. Ely, Social Aspects of Christianity, p. 119.

place for an economist. One orthodox thinker of superior intellect, with the exertion of his own powers of deduction could work out completely at a sitting, the whole science of political economy, without having visited any community beyond the one in which he was born, or knowing a page of history.¹⁸ From this outlook nothing could be done but to allow that natural forces work themselves out, and the less man interfered the better. The scientist's only task was to discover these laws.¹⁹

18

P. A. Walker, Political Economy, New York, Holt, 1888, p. 12.

19

P. A. Walker gave the following illustration to distinguish between a scientist and an artist: "Suppose I am in my laboratory and a man enters who says that he desires to consult me, as a professor of chemistry, as to whether he had better swallow the contents of a vial which he holds in his hand. I reply to him: Sir, I have no advice, as a professor of chemistry, to offer you as to what you shall swallow or refrain from swallowing. I perceive that the liquid contained in your vial is prussic acid. I will cheerfully state to you the action of prussic acid on any substance about which you may choose to inquire; but probably you had better, for your apparent purpose, go to Prof. S., the physiologist, who can more fully and readily than myself explain the precise action of prussic acid when taken into the stomach of a living being.

The inquirer now goes to Prof. S., and says that he desires to consult him, as a professor of physiology, as to whether he had better swallow the liquid which the chemist has told him is undilute prussic acid. Prof. S. replies: Sir, should you consult me as a fellow being, I would not stand on ceremony, but frankly advise you to empty the contents of your vial into the sink. But if you insist on consulting me as a professor of physiology, I must reply that I have no advice to give. Physiology, sir, is a science; as such, it has nothing to do with precepts or prescriptions, but only with the relations of cause and effect within the field of animal life. As a student of that science, I inform you that, if you swallow the liquid, you will experience such and such sensations, and, at about such a time, you will be dead. Since you still insist upon having advice as to whether you had better do this or not, I refer you to my neighbor, Mr. G., who is a professor, not of a science, but of an art. As such, it is his business to give advice regarding conduct. As such, he has a right to entertain the notion that certain things are good, and certain things evil; that the means calculated (as shown by the appropriate science or sciences) lead to the evil, or undesirable. He would not be a physician unless he held that pain and death were evil; life and the absence of pain good. What he is a physician for is to help his patients to avoid the evil and obtain the good. In doing this he will naturally seek to apply the largest and latest results of the science of physiology to the art of healing."

Op. cit., pp. 20-1.

Having no faith in simple formulae, Ely considered as a quack anyone who advocated a panacea for the ailments of society; but he never lost sight of the idea that the aim of economics was man.²⁰ It was the duty - of the economist to find out what would benefit the people as a whole and to hew to the line and let the chips fall where they might. The honest man had but one course to follow: to say his word and endure patiently the misunderstandings, and, at times, even the malicious abuses heaped upon him.²¹ He believed in active participation in life's affairs and emphasized the importance of letting action follow knowledge. Better economic knowledge should bear fruit in improved citizenship. A student in the social sciences should have practical experience in order to test and enlarge upon his theories. The business man, like the doctor, needs theoretical training and an apprenticeship. The modern nation can use the political economist as surely as the practical business man does the lawyer.²²

Ely's point of view and methods naturally led him into economic reform, - because he believed social progress depended upon it. Even socialistic agitation had a certain value since it gave a viewpoint from which to survey and evaluate existing social institutions. Ameliorative measures indicated the correct method of dealing with social problems. The state should hear and discuss with candor every demand for change, and, when just, it should concede to all claims.

Concerning his ideas of social reconstruction Ely was militant. With books, articles, and lectures he plunged with fervor into such social

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R. T. Ely, Outlines of Economics, fifth edition, pp. 4-5.

21

R. T. Ely, Social Law of Service, pp. 252-4.

22

R. T. Ely, An Introduction to Political Economy, p. 130.

controversies as the labor movement, tax reform, socialism, trust busting, and municipal corruption. In each case he incurred the hostility of the capitalists. Ely defended labor organizations as effective means of wresting from capitalists unwarranted powers which they seized and of restoring equality of opportunity to labor at the expense of capital. He advocated the shifting of the tax burdens from small property owners to the rich through new forms of taxes upon income, large inheritances, and the franchises of large public utility corporations. He saw far too much good in socialism to suit capitalists, while with reference to trusts he favored the substitution of either outright government ownership or strong government regulation whenever competition had been destroyed by big business. In his later writings two major problems primarily attracted his attention: the effects of social institutions like property, contract, vested interests, and police power upon the distribution of wealth; and land economics.

Some of Ely's most bitter critics have accused him of selling out, in his later years, to the money interests. Others have said he was inconsistent in his teachings, or that he grew conservative with age. At any rate his early writings seem in some respects more radical than his later productions. Ely admitted that he changed his viewpoint somewhat, especially in connection with government ownership of natural monopolies. The seeming discrepancies may have been due, partly at least, to a change of public opinion or to a difference in the type of materials treated. His early writings dealt with highly controversial matters, in which wide popular interest prevailed, such as taxation, socialism and public utilities, whereas his later works covered less popular topics of social institutions and land economics. Moreover, after his so-called radical programs had been in effect for a decade or more, they looked

much less radical, sometimes even conservative. Ely denied that he had been radical, and asserted that he always sought only the truth.

In 1894, in the midst of his radicalism, and in spite of the fact that he has since referred to himself as a rebel, Ely claimed to be a conservative rather than a radical, an aristocrat rather than a democrat. He did not refer to an aristocracy born for the enjoyment of special privileges, but one which lived for the fulfillment of special service.²³ As a scientist Ely disliked creeds and did not object to changing his viewpoint when he had received sufficient new light on a matter to justify his doing so. Whatever the cause for his shifting point of view, there are interesting contrasts between his earlier and later writings. Whereas in 1894, as already referred to, he favored outright government ownership of public utilities,²⁴ in 1938 he advocated government regulation by commission. His own explanation for this seeming inconsistency was, that at the time he first proposed the reform it would have been easier to develop efficient ownership than effective control, but after the commissions had once been set up and had demonstrated that they were better suited to the temperament of the American people than ownership, he became favorable to regulation rather than outright purchase. In 1938 he denied any hostility to government ownership, and affirmed that the Institute of which he was the director desired to present disinterested facts only.²⁵

In 1894, when Ely wrote "Fundamental Beliefs of My Social Philosophy" he believed that three things were necessary to bring about an improved society: education in its broad sense; abolition of private monopoly and the substitution of public ownership and management of all those enter-

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R. T. Ely, "Fundamental Beliefs of My Social Philosophy," Forum, Volume XVIII, 1894-5, p. 183.

24

Op. cit., p. 183.

25

R. T. Ely, Ground Under Our Feet, pp. 263-4.

prises which were by nature monopolies such as railways, and gas, electric, telegraph, and telephone service; and reforms of the laws of inheritance. In the last two or three decades he has been laying more emphasis upon national land policies,²⁶ and upon the slowly changing social institutions like property and contract. In 1938 he expressed the opinion that big business had been cowed, and had become an under dog, whereas in his early utterances he gave no quarter to big business.

In 1899, when he wrote The Strength and Weakness of Socialism, there was no place for half-way measures. The violent, bitter, and unprincipled extremes loomed large. On the one hand the anarchists of the poor used the torch and dynamite bomb as a matter of expediency, while, on the other hand, men of wealth greeted, with the same spirit, any proposal of reform. They ridiculed, misrepresented and vilified every advocate of changes, even in accordance with constitutional and legal means.²⁷ In 1938, when he considered future progress, he contemplated a long and weary way, but one which affords delight in the prospect of progress. He beheld a society in which men should work together for common purposes, and in which this wholesome cooperation would take place largely through government, which had become less repressive, and had developed its positive side.²⁸

26

In 1935 Ely wrote with reference to land policy and recovery: "If one-quarter of the effort that has been expended upon futile projects had been devoted to developing sound land policies, our distress would be far less than it is, and we would be farther on our road to recovery." R. T. Ely and Frank Bohn, The Great Change, New York, Nelson, 1935, pp. 197-8.

27

R. T. Ely, The Strength and Weakness of Socialism, New York, Chautauqua Press, 1899, preface.

28

R. T. Ely, Ground Under Our Feet, Preface.

In the year 1888 Ely knew of no American city which was not dominated by wealth. Unscrupulous wealth used vicious poverty as a tool.²⁹ Every city needed a public property defense league to watch the interests of the public and to hunt down and send to the penitentiary those who forgot that municipal office was a public trust. He laid most of the corruption and evils of extreme wealth at the door of large public utilities or natural monopolies.³⁰ In 1935 when big business had become less and less monopolistic and more and more competitive, he was venturing to predict that the large fortunes of the future would be found in the competitive sphere. He also took care to observe that the power of millionaires for doing good was very great, especially through endowed foundations and institutions.³¹

In 1886 Ely spoke of the few really bad employers, who for gold would worship Satan, and send all their employees to hell. Against these few men in the United States, he warned that all classes should combine to preserve the republic.³² In later years, after much mingling with the wealthy seeking endowments for his Institute for Economic Research and managing one or more large corporate land and building projects, he

29

R. T. Ely, Problems of Today, p. 265.

30

Op. cit., p. 133.

31

Ely and Bohn, The Great Change, pp. 142-4.

32

R. T. Ely, Labor Movement in America, p. 322.

appeared much less harsh in his denouncement of the abuses of the poor by the rich³³ and has revealed a new sympathy for the cowed, over-regulated big businesses.

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Ely said in regard to capital's treatment of child labor in England during the first half of the nineteenth century: "I believe in the - sight of Almighty God, the cannibals of the Sandwich Islands were less guilty than those who, appreciating its terrors, knowingly, willingly supported it; for it, also, was a species of cannibalism, slow but more cruel, for the flesh and blood of the little ones were devoured piecemeal. Yet it required the struggle of a generation to pass laws forbidding it, and nothing is more disgusting than the evasive, shifting, lying course of its chief opponents." Op. cit., pp. 15-16.

CHAPTER III

THE RELATIONSHIP OF ECONOMICS TO OTHER FIELDS OF KNOWLEDGE

Ely used the term "social solidarity" to describe the basic principle out of which his whole economic system seemed to unfold. Found in every department of life this basic philosophy made individuals mutually inter-dependent and equally responsible. Since social solidarity developed with civilization, race unity grew more intense as men came closer together, and it became most marked in the economic relationships of life. In modern economic society the individual was dependent upon himself for only that which he actually produced. He relied upon others not only to furnish him with goods and services in exchange for his own labors, but also to supply the competition of both buyers and sellers. As economic inter-dependence increased social solidarity evolved. It emphasized the oneness of human interests in matters both good and evil. Society had to establish right social relations in order to improve human character, while true individuality developed, not in isolation, but in society. Social solidarity would partly relieve the weak and erring of their guilt, but on the whole, the application of the principle would greatly increase individual responsibility. True welfare was a social as well as an individual problem. Man's happiness depended upon the exaltation of his fellows, and their elevation became his enlargement. Social unity implied mutuality not only in interests and responsibilities but also in that singleness of nature which denoted human brotherhood. Man not only needed association with his fellow men but actually shared their sins and sufferings. There was no such thing as purely personal sins or righteousness.² "Truly,"

declared Ely, "man is the son of man, the blood of the race flows in his
³
 veins."

In this total unity, Ely recognized eight great divisions of
 life--science and education, art, language, religion, business, family,
 politics, and narrow social activities. Business which ought to be sub-
 servient, touched and modified all of the others. Ely consistently
 maintained that, since economic phases of social life could not be se-
 gregated from other great social relationships, and since sooner or
 later every social phenomenon came under the economist's discussion,
 no wholly ethical or social relationships existed. Since the human
 factor was the chief productive element, whatever affected it would
 influence all wealth-creation and wealth-use. Social economy was not

1
 Ely gave a special economic interpretation of the principle of social
 solidarity in what he called the law of the twentieth man. If, in the
 competition of twenty barbers, all but one wanted to close their shops
 on Sunday, nineteen would be compelled to open their shops to meet the
 competition of one man. Within certain narrow limits in industry what
 one did the others had to do. This situation would give to the worst
 men of the community enormous power unless restrained by law. Modern
 competition, based upon division of labor, specialization, mass pro-
 duction, and exchange, gave such social solidarity that the individual
 by himself was unable to govern the conditions under which he worked for
 a living. In another connection Ely declared this "wonderful law" applied
 specifically to the labor movement, and bound men together so that when
 one group suffered others also had to endure pain. When one group did
 wrong the penalty was visited on both the innocent and the guilty. Good
 came out of it because it was never intended that one group of men should
 be completely happy while their fellows were suffering. Every worker and
 capitalist, especially every discontented human being, should first look
 within and begin to reform his own nature.

2
 Ely, Social Law of Service, pp. 87-8.

3
Op. cit., p. 134.

merely a sum total of all private and public business matters, but was more like a chemical compound, differing from the elements which composed it, yet determined in character by them.

Since social phenomena could not be separated, the province of the economist covers every social activity. The doctor found interest in the health of the child who was employed in over-heated buildings or dangerous surroundings, while the economist was interested in child labor as a productive factor, in the welfare of the laboring class as a whole, in the effect upon other workers' wages, and in the prospects of employment and promotion. So, also, the teacher and the economist might discuss industrial training, but each one would have his particular viewpoint. Since such problems were unities they could not be separated on an ethical, social, legal, educational, and religious basis. For these reasons Ely held that it was the function of sociology to present social science as a whole, whereas political economy like ethics and law was only an important part of sociology.

Ely believed that the Christian religion with its manward and Godward aspects gave unity to the various departments of society. It was the cement of society, the only force that could hold it together. Both religion and economics strove for human happiness. Religion and ethics supplied not only norms of conduct but also the moral force which induced man to acknowledge the truth and to do what they believed right. Christianity should concern itself primarily with this world and should strive to establish a kingdom of righteousness on earth.

Religiously speaking, Ely summed up the whole duty of man in two principles, the fatherhood of God and the brotherhood of man. To determine man's relationship to God, was primarily the task of the theologian but to decide man's relationship to man was a vital concern of the economist. Religion, especially when built upon that part of the ethics of Christ

which taught that each man was his brother's keeper, was the most powerful force known to man. The manward phase was an essential part of Christianity. The doomed and the blessed classified themselves upon the basis of the performance of such social duties as visiting prisoners and orphans.

Ely definitely believed that religion should be something more than a graceful and pleasing appendix to life. Christian liberty carried with it responsibility; salvation was both individual and social.⁴ The only criterion of love for God was love for man. Ely's primary interest lay in applied economics, because to him no theory was acceptable unless it helped man to solve his problems. Ely's theories of practical religion and applied economics overlapped at many points: Humanitarianism which did not rest back upon God was unstable as the sands. Unless man applied the principle of essential equality, he was likely to despise the masses and accept the view of caste which held that God created one class of men out of the mouth to rule forever over those made in turn, from the arms, thighs, and feet of God. Indoctrinated with this concept of caste a Brahman felt so high above other classes in society that a man who struck him but "with a blade of grass" was worthy of the condemnation of hell. A society built upon Brahmanism could never possess much humanitarianism. Philanthropy, according to Ely, was "Christianity in action." A Christian without philanthropy was a hypocrite and a liar. Such philanthropy, furthermore, embraced not only the individual but all humanity. It was both preventive and positive, voluntary and coercive. Modern labor problems involved

⁴ Ely said, "If we receive Christ in our heart, and then do not go to work to bear fruit; if we do not help and comfort others; if we fail to minister to those about us, to show mercy unto prisoners and captives, then the sap of life dries up, the life in us dies, we wither away and lose that which we had." Ely, Social Law of Service, Preface.

both economics and religion. In the struggle between labor and capital it was madness to attempt to practice the doctrine of meeting injustice with injustice. Love, not vengeance, was the law of the highest civilization. Violence never settled any question, and man did not solve any social problem until it reached a righteous solution.⁵ Ely defined the labor movement in its broader outlines as the effort of men to live the life of men and to attain more leisure and larger economic resources. The end and purpose of the labor movement was the full and harmonious development in each individual of all human faculties. This development of human powers in the individual was not only for self but for others as well. Christ's command to "love thy neighbor as thyself" contained the secret of all true progress. Men's interests were so inextricably intertwined that they could never become truly prosperous so long as any class of the population lived in squalor. A social body could not be in a sound condition as long as it contained a submerged element. The church, according to Ely, should seek and gain leadership in general social movements, in order to infuse the spirit of Christ into every significant social change. Society needed a true revival of religion to instill a religious spirit into every department of political life. He did not argue that the religion of Christ would make the solution of social problems easy but that it would give a base upon which to work. Christ's teachings furnished the secure foundation needed, and the church had in its membership sufficient intelligence to solve social as well as individual problems. In general business dealings Ely saw a great challenge for practical Christianity and applied economics. Society needed a constant manifestation of love in all the daily acts of selling, buying,

and getting gain. If men regulated their lives in accordance with the Golden Rule they would realize that they could not "serve God and Mammon." The ruling motives of one were egotism, selfishness, and covetousness, while the motives of the other were altruism, devotion to others, and consecration of heart and soul. To the real Christian business was as sacred as church matters. Ely pointed out that Moses founded on God's precepts, a commonwealth which for generations continued free and prosperous, knowing neither pauperism nor excessive wealth. Yet the church had passed over this economic legislation of Moses as inconsequential and without binding force. The goal of Christianity and of economics was one; the end of the former was life more abundantly spent in service, while that of the latter was human well-being. Both Christianity and political economy, therefore, should seek to promote the true welfare of neighbors in all those infinite ways which love could suggest. In the stewardship of property, the Bible taught that God owned the land, not the nation, nor the family, much less the individual. Literally, the land was a trust and the possessor a steward. It was this truth which Christ extended and intensified, but did not destroy. Property, therefore, existed for the sake of man, and not man for the sake of property. In matters of consumption, one man might argue that, even if he loved his neighbor as himself, his necessities were as important as those of his neighbor. This logic was true, but the comforts and luxuries of the one were not so important as the necessities of the other. Ely declared that the pursuit of luxury was materialistic and selfish and tended to impoverish a nation. Many of the so-called economic reform movements such as Sunday labor, public corruption, industrial housing, just distribution, and inadequate income belonged to the church as much as to political economy.

Out of the mutual interests of economics and religion social unity

of purpose and activities should develop. Because of a common belief that there ought to be no contradiction between actual economic life and the postulates of ethics, political economy could be brought into harmony with the great religious, political, and social movements which characterized the age. When an industrial society did not meet such requirements, it stood condemned. Ely considered it strange that when some economists called attention to the importance of religion as a social force, some men, in the name of science, denounced and ridiculed them as being unscientific. To the religionist, it would be hard to think of anything more unscientific than a philosophy which neglected a consideration of the role played by religion in social evolution. Religion was the only social tie which had sufficient power to unite individuals into a society. All reformers, furthermore, needed a deep and abiding religion because it furnished a basis upon which to work, an enduring hope with proper social and individual restraints, and the only sure road to success.

With this ethical approach Ely's economic system stood out in bold contrast with the supposedly scientific concept presented by Francis A. Walker, H. J. Davenport and others. Perhaps one could best discover both the strength and weakness of Ely's ideas by contrasting them with the thoughts of this latter group.



Some critics have felt that Ely's greatest weakness lay in the fact that he blended science with reform, sentimentalism, and religion.⁶

In general, Ely divided his science into three major fields--economic theory, applied economics, and public finance--but even his theory aimed to contribute to human happiness through reform. He frankly started with the assumption that human happiness was desirable and that it constituted a logical goal for any science which placed man at its center.⁷ Economics was an examination into the nature, the development, and the desirable contribution of industrial society. Such writers as Schomburg,⁸ Roscher, and Laveleye shared this viewpoint with Ely.⁹

⁶ F. M. Taylor, Head of the Department of Economics, University of Michigan, said that it was a discredit to any college, teacher of economics or any student to use Ely's text, Outlines of Economics; he objected to what he called the sentimentalism, radicalism, socialism, and all-inclusiveness of Ely's approach, and cynically spoke of him as no scientist. Personal interview, 1921.

⁷ "We may define political economy in its most general terms as the science which treats of man as a member of economic society the limitation is found in its peculiar stand-point social phenomena connected with the production and consumption of material goods are the province of political economy. The political economist deals with religious phenomena with the social phenomena of art and literature, with urban sanitation, and any number of similar subjects, but always as in some way or another connected with the production and consumption of material good things Political economy describes the relations of private economies to one another and their union into larger economic communities (as township, city, state), taking into account their origin, their growth, and their constitution, and prescribing rules for that ordering of these relations best calculated to meet the demands of the degree of culture already attained and to be attained in the future. "R. T. Ely, An Introduction to Political Economy, New York, Chautauqua Press, 1888, pp. 94-6.

⁸ Op. cit., p. 65.

⁹ Cf. Chapter II, p. 22.

Ely found the most interesting aspects of political economy in the¹⁰ borderlands of philosophy, ethics, and religion. Scientifically no territory was more fascinating, and practically none could be more important, for it was in this borderland that the problems of life presented themselves.

Ely's theory, based upon the foundation of social solidarity, which, in turn, evolved out of two basic religious concepts, the fatherhood of God and the brotherhood of man, had actually to work in a complex social order toward solving man's general welfare problems or else the theory was unsound. His system had always the goal of reform; it was a study of dynamic forces and took into consideration both objective and subjective factors. Man could direct progress by understanding and working in line with the great social forces. Progress consisted in bringing about conditions of social equality that conformed to each individual's capacity.

Political economy was, thus, a vital branch of a larger social science just as law, political science, and religion were parts of sociology. Viewpoint contributed the main distinction between these various phases of the larger science, since each of them had the same objective, human well-being.

In contrast to this viewpoint, F. A. Walker interested himself in developing a pure political economy based upon a few simple assumptions. Using the Ricardian method he traced the processes of production, exchange and distribution and brought them together into a complex system. Upon this ghastly frame-work, the skeleton of all economic reasoning, he imposed the flesh and blood of an actual and vital political economy which

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Ely wrote in the preface of one of his books that "it belongs to that borderland in which theology, ethics and economics meet. "Ely, Social Law of Service, Preface.

took account of men and societies with all their sympathies, apathies, and antipathies. Any science, according to Walker, dealt only with the relations of cause and effect within its own field; it assumed nothing to be good or evil. Neither did it start with a notion that something was desirable or undesirable nor did it arrive at any such conclusions. The boundary line between ethical and economic inquiry was perfectly clear to those who looked for it. The economist as such should not consider whether existing institutions, laws, and customs were right or wrong. His only concern was to ascertain how they affected the production and
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distribution of wealth.

More recently, H. J. Davenport expressed the full logic of individualism and competition treated scientifically without any connection with ethics or other social sciences. Economic productivity was no matter of piety, merit, or deserving, but was only a matter of commanding a price. Professional men were in the same economic classification as prostitutes when they did things that men are content to pay for. Wages might be earned, according to Davenport, by indicting libels against a rival candidate, setting fire to a competitor's refinery, or sinking ships. The test of economic activity in a competitive society was the fact of private gain, irrespective of any ethical criteria, and without any social accountancy. Under the test of social welfare it was invalid to stamp as unproductive any form of wealth or kind of labor. Finally, he declared, "If jimmies are capital, being productive for their purpose, so also is burglary productive; if sandbags, so highway robbery always and everywhere, in the competitive regime, the test of productivity is competitive
12
gain."

11
F. A. Walker, Political Economy, pp. 16-26.

12
H. J. Davenport, "Social Productivity vs Private Acquisition," Quarterly Journal of Economics, November, 1910, pp. 112-3.

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Economists have always argued about the content and purpose of their science, but all of them have insisted that it possessed the necessary elements of a science. By the year 1889, when Ely brought out his Introduction to Political Economy, there were at least three basic ideas in the definition of economics. One group limited the subject-matter to external values or material goods.¹³ Another group defined it in terms of economic goods in relation to man,¹⁴ and a third group, to which Ely belonged, looked upon the science as dealing with man in his relations to economic goods.

Ely differed with Walker in that the latter sought to develop a pure science, while the former desired to solve social problems. Walker's economic science was the skeleton around which to build, while the solution of problems was merely an art rather than a science, whereas Ely's foundation was Christian ethics and the law of social solidarity.

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"Political economy is the science which investigates the nature of wealth and the laws which govern its production, exchange, and distribution." Mrs. Millicent Fawcett, Political Economy for Beginners, Sixth Edition, London, Macmillan, 1884, p. 1.

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"Writers on political economy profess to teach or to investigate, the nature of wealth, and the laws of its production and distribution; including, directly or remotely, the operation of all the causes by which the conditions of mankind, or of any society of human beings, in respect to this universal object of human desire, is made prosperous or the reverse." John Stuart Mill, Principles of Political Economy, Edited by Laughlin, New York, Appleton, 1891, p. 47.

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Ely quoted H. C. Adams as saying, "Political economy treats of industrial actions of men. Its purpose as a constructive science is to discover a scientific and rational basis for the formation and government of industrial society." Ely, An Introduction to Political Economy, p. 110.

Walker recognized his art as the flesh and blood of the actual political economy; Ely doubted that the flesh and blood could be separated from the skeleton without destroying both. Walker's economics, which dealt with unalterable phenomena and for which it was not responsible, appeared as a reasoned science absolutely foreign to ethics. On the other hand, Ely's applied economics ranked subsidiary and inferior to ethics, in that the attainment of a purely economical advantage could not justify a violation of ethical principles. In all questions of practice, ethics played its part, because, if one thought of man in his living relationships, it would appear impossible to forget ideals and rules of justice and equality as defined by reason or by revealed religion. Scientifically, the argument resolved itself into whether or not the aim of political economy should, through abstractions, formulate laws of cause and effect only, or, include also social progress and reform. Ely would test every assumption of reasoned economy, but the orthodox group found them axiomatic. Ely considered all social factors, both objectively and subjectively, but his opponents eliminated all factors which appeared contrary to their assumptions.

Whether the discovery of laws or the solution of problems should be the chief end of political economy continued to be a main issue among economists. Only such theory as would solve social problems and lead man toward a goal of equality of opportunity and brotherhood interested Ely, whereas Walker and Davenport left the solution of economic problems to artists. Ely felt that the discoverer of a scientific law could apply it better than some one else in quite a separate realm.

Ely's early writings especially, appeared in an intellectual climate dominated by Newtonian concepts of mechanistic science of balanced forces in a stable unchanging universe. By analogy, economists visualized fixed social institutions and a tendency toward stable equilibrium in economic

matters brought about by a complete mobility of factors in a free world market of competitive individualism. A century of relative order, comparative security, and slow secular modifications in the ways of social life gave weight to this mechanically conceived economics with its static models. Social habits and political systems seemed immutable. Orthodox economists felt at home in a mastered world. To them the central substance of organized economic knowledge seemed well-defined.

The scientific spirit dominated thought and had developed a tradition of objectivity, in which the research individual completely left out of his investigations his own judgments or concepts of value. Although Ely insisted that he was scientific in his methods, he appeared weak in regard to objectivity. He not only crusaded as a reformer with the attitude of a preacher, but he actually entered the pulpits of those churches which admitted him to their conferences to preach his gospel of reform. He argued that church problems and economic problems are identical. He plunged into the labor movement, but treated the subject with such an institutional approach that all of his writings upon the subject were little more than a defense and eulogy of trade unionism. In his works on labor and wages Ely either ignored completely or treated with insignificance the great wage doctrine of marginal productivity of labor. Although he claimed to have built his Economic System largely from a distribution approach, he did not show much interest in discovering laws that governed general wage rates.

In his early revolt against orthodox economists Ely sensed the significance of impending social changes and anticipated the forthcoming attacks upon the concepts of static economics. He caught a glimpse of the emphasis upon dynamic concepts. Close examination of economic phenomena in the twentieth century revealed not an economic universe of simplicity and equilibrium but one bristling with change. Social habits

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and even political systems have undergone rapid changes. Observers have witnessed the great emphasis upon intervention by the state, the recent increased dependence upon social control, and the weakening concept of a free world market. To many writers the outstanding fact of the twentieth century economic life has been change, both in the institutional framework and in the working elements of our economic system. This has not meant, however, that the automatic forces of classical economics have been completely replaced, or that men have possessed either the knowledge or the administrative power to provide the substitutes capable of performing all of the innumerable and intricate economic functions.

Study of actual life in which Ely was so concerned, has taught society much about national income, credit structure, formation of capital, and industrial production, but a mass of details has always demanded simplifying principles. Observation has not always brought understanding, nor has familiarity with actual facts insured wisdom. The "look and see" method has not guaranteed comprehension. Descriptive piecemeal accounts, that have not been worked into systems of thought, have proved unsatisfactory. An impressive feature of classical economics was in the fact that it furnished a conceptual system which inter-related diverse facts and their changes over a period of time. Ely sought unity in his concepts, in the law of social solidarity, the brotherhood of man, and in changing social institutions which guaranteed equality of opportunity in accordance with each one's capacity.

In criticizing the orthodox economists, Ely insisted upon complexity of factors, and attacked the concept of God-willed natural laws while assuming at the same time the God-willed principle of brotherhood and social solidarity. If twentieth century economics has emphasized weaknesses in the static classical concepts of equilibrium, it has done no less with Ely's ideas. Perhaps at no time in history has there been so

much race hatred and such intense nationalism, coupled with the efforts of one nation to dominate and secure every type of social advantage over others. Though Ely, more or less logically, included God and religion in his economic system he brought into his economics a set of values and judgments which the scientific economists considered entirely foreign to the subject-matter. Furthermore, he not only maintained his privilege of exercising personal judgments as to what values were desirable and undesirable, but also he became intensely partisan. He used his influence to help labor develop trade unions; he charged utility corporations with political corruption; he insisted upon government ownership of public utilities; and he demanded government regulation of trusts. Even economists who insisted that political economy which dealt largely with values, could not exclude value-judgments have justly insisted that such a scientist could best serve, not as an advocate and special pleader, but as a disinterested adviser. The great tradition of western science has been that of honesty of endeavor and dignity of spirit, coupled with an ideal of objectivity. In the United States one would not hold a high scientific regard for the opinion of a trade unionist's defense of unionism, of a railway owner's evaluation of government regulation of railroads, or of a Nazi's appraisal of democracy. Ely's crusading for social reform through the church may have weakened his basic claim that Christian ethics should be the cornerstone of economic thinking and behavior. Ely placed much confidence in municipal government as a reforming agency; yet many students of both political science and economics have felt that no phase of American life has shown more signs of corruption and graft.

Ely did not claim idealization for his system of thought; in fact, it was always "becoming" but never completed. Neither did classical economists contend that they had discovered perfection, but they recognized

frictions and retardations. Their laws determined limits and not observations. Edgeworth's equilibrium, for instance, was like the surface of the sea.

While Ely insisted upon shattering all semblance of creeds in connection with "orthodox" economic theory, he clung to moral values as basic principles. Other economists, like William Graham Sumner, were endeavoring as earnestly to break up the religious crust that had formed on economics as Ely was trying to destroy the orthodox crust.

Finally, students have questioned whether or not Ely's goal of human happiness, based upon equality of opportunity, would bring either happiness or well-being. Too often only the discontented elements of society have sought "equality," while those who have been successful have desired to maintain the status quo. In view of the sweep of history, caste systems and inequalities have appeared about as satisfying and consistent with social growth as democracy and equality. At least the older systems had given recognition to individual differences.

CHAPTER IV

Monopoly Versus Competition

In his economic system Ely gave prominence to the problem of monopoly as contrasted with competition and made vigorous effort to formulate an adequate social policy for dealing with the trust movement. He defined monopoly as that substantial unity of action on the part of one or more persons engaged in some kind of business which gave "exclusive control, more particularly, although not solely, with respect to price."¹ It was the opposite of competition and was a unity in management, in some particular phase of business like production, sales, or purchases. Prior to Ely's time, economic writers had developed several other concepts of monopoly, namely, the exclusive control of the supply of an economic good; something objectionable with regard to price control; a productive agent possessing monopoly force; control over a commodity that no one else could bring to market; anything that conferred a special economic privilege; and every scarce commodity or service.²

In clarifying the meaning of monopoly Ely recognized the following possible classifications:

1. As to ownership -- public, private and mixed
2. As to source of monopoly power -- social or natural
3. As to completeness -- absolute, complete and partial

¹ R. T. Ely, Monopolies and Trusts, New York, Macmillan, 1900, p.14.

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Op. cit., pp. 1-38.

4. As to permitting an increased supply -- increasing difficulty, constant difficulty and decreasing difficulty
5. As to area of operation -- local, national, international and universal
6. As to position of monopolist -- seller or buyer
7. As to object of monopoly -- material goods or services

He also drew a distinction between social monopolies, like patents, copyrights and franchises, and natural monopolies like public utility concerns. The latter type gave society its most difficult problems. Such monopolies might arise from a limited supply of raw materials, from secrecy, or from properties inherent in the business.³

The inherent property was generally a situation of increasing returns, as found in the case of public utilities, including gas companies, railways, telegraph, and municipal water works. Business men were always looking for gain, and, if the law of increasing returns prevailed, unit profits could be increased by expansion of plant, or by combination of existing units of production. If competition prevailed between such units, it proved temporary and outthroat in nature. Eventually such competition would result either in bankruptcy of all but the

³ Ely quoted from Lord Farrer's The State in Its Relation to Trade, concerning the phenomena connected with natural monopolies:

1. They supplied a necessary
2. They occupied favored spots or lines of land
3. The article or convenience they supplied was used in connection with the plant or machinery by which it was supplied
4. In general the article or convenience could be increased without proportionate increase in plant and capital
5. Unity of action was a paramount consideration

Ely, Op. cit. pp. 61-2.

strongest concern or in a combination of the few surviving firms. Monopoly, therefore, would always result,⁴ because one company could do all the business more cheaply than two or more. Each one would derive a profit from combination. In such cases, even if competition were possible, it would not be a good thing, since it would tend to raise prices rather than lower them.⁵

If monopoly proved permanent, either natural conditions had to favor it or the state had to give it aid. Combination alone could give no more than temporary monopoly. The government might allow an industry that had no inherent advantage like manufacturing to ally itself closely with a natural monopoly like a railroad, or the government might produce the same result by granting a tariff. Ely did not believe that permanent monopoly could result from efficiency of management alone. Though in part, the trust movement represented a genuine industrial evolutionary movement, it also represented a "speculative mania" similar to the "bubble schemes" of the eighteenth century. The success of a few combinations like the Standard Oil Company captured the imagination of men until there was a readiness to believe that every combination had in it a potential gold mine. A speculative temper on the stock exchanges made

⁴ Of a thousand efforts to secure competition in the gas business not even one success could be found, declared Ely. A hundred efforts in England and the United States to secure effective competition in the telegraph business had failed. The difficulties of competition in the railway business between the government and private corporations were insuperable, and either the government or the private corporations would finally have to abandon the field.

⁵ Contrasted with this viewpoint of Ely's was that expressed by A. L. Perry in 1891: "Monopoly is the enemy of mankind monopoly is the privilege of selling one's commodity free from the competition to which it is naturally subject by other sellers than the privileged one. Monopoly is thus artificial restraint imposed on some buyers and sellers for the supposed benefit of other buyers and sellers. It is wholly unnatural." A. L. Perry, Principles of Political Economy, New York, Scribners, 1891, p. 122.

it possible for promoters to exploit the general public.

Furthermore, Ely made a clear-cut differentiation between monopoly, concentration of wealth, and large-scale production. One could not discover any connection between mass of capital and monopoly force. There was no such thing as a trust problem in itself. The trust problem, as generally understood and discussed, meant little more than a wide-spread tendency to do business on a large-scale. The so-called trusts were not bad in themselves, unless large-scale business was bad. They were, in fact, good organizations, if they came about from a free development, and it was, consequently, a bad policy to try to destroy them.

As to the relationship of monopoly and competition Ely saw two distinct fields of business operation. The field of competition was older and larger than that of monopoly and still prevailed in agriculture, commerce, and most manufacturing. In the public utility field, however, monopoly was not only inevitable but desirable. It was inevitable, because of the condition of decreasing costs, and was desirable, because monopoly resulted in cheaper products and services than could be obtained under conditions of competition. At this point Ely took issue with Karl Marx and other socialist writers who contended that under an iron law of nature all businesses tended toward monopoly, with some of them merely lagging behind others. Upon the old competitive field a new non-competitive field had arisen. Where monopolistic tendencies appeared in manufacturing one could find causal explanation apart from inherent factors.

Ely declared that so-called competition in the natural monopoly field was more apparent than real, was temporary and wasteful, and ultimately led to combination. Real competition, on the other hand, was a continuous pressure in the direction of efficiency and fair play. Since competition had produced marvelous results in the past, it did not

warrant the conclusion, too often reached, that competition was good at all times and in all places. Real competition, though it was unending, stimulated enterprises and was never fierce and destructive.

In addition to inherent differences between the two realms of business activities, Ely found another contrast between the behavior of prices in the fields of competition and monopoly. Where nothing obstructed the flow of labor and capital, free competition set definite limits to price, which depended immediately on demand and supply and, secondarily and in the long run, upon the cost of production. Ely viewed cost of production from two viewpoints, that of the efforts and sacrifices of society and that of the payments of individuals for these efforts and sacrifices. If the competitor attempted to charge a price higher than the costs of production, other competitors would undersell him in an effort to drive him out of business; but, on the other hand, if he did not sell for a price equal to his costs, he would in the long run have to discontinue business. In a given market at a given time, uniformity of price was the leading characteristic of a competitive situation, but under a monopoly market situation a leading characteristic of price was its variation.

The monopolist, who controlled supply, charged that price which yielded the largest net returns.⁶ Price, therefore, varied not only from time to time and from place to place, but also from one class of buyers to another, as illustrated by the electric company which set different rates for householders, industrial operators, and municipalities,

⁶ Ely cautioned that the term monopoly price sometimes had two meanings. - At one time it referred to the price actually charged by the monopolist, and on another occasion to that price which yielded the highest net returns. The actual price might be fixed by law, or the monopolist might not have discovered the price which would yield the largest net returns.

even though each unit of current came from the same plant. This practice would be true since, according to the law of marginal utility, the consumption of a good would stop at that point where purchasers regarded it as just worth while to buy the quantities sold. Prices might be high for a small number of units and low for a large number of units, and finally fall to zero when all wants became satisfied. In each case the elasticity of demand regulated the rapidity with which price fell. The demand for ordinary articles of food was urgent and inelastic. The monopolist found his power over price limited in demand. If a monopolist had control over the food supply he would no doubt desire to let the people feel hungry, because unsatisfied desires would give a high price for food. Since the monopolist controlled supply he could either withhold or furnish the product. This fact gave him power not only to raise prices but also to lower them. In fact, it has been the possibility of lowering prices to cut-throat levels that has given society one of its most serious problems with public utilities and trusts.

Compared with competition, monopoly price should usually be thought of as a high price, but Ely warned that any complete theory of monopoly should contemplate those cases in which the price yielding the highest net returns would be positively less than the competitive price.⁷ In such a case monopoly gains would come from the economies of monopolized production. In formal fashion Ely stated what he conceived as a new and significant law of monopoly price behavior: "The greater the intensity of customary use, the higher the general average of economic well-being, and the more readily wealth is generally expended, the higher the monopoly

⁷R. T. Ely, Monopolies and Trusts, pp. 120-1.

charge which will yield the largest net returns.⁸

Out of the possibility and fact of high prices came the chief social - evil of monopoly as well as the leading incentive for business combinations. Ely thought it a moderate statement that monopoly prices were frequently one hundred per cent above competitive prices, where such a comparison was possible, and he felt that in the case of municipal monopolies, where true competition was absent, the prices were far higher than that yielding a normal return.⁹ It was a serious matter, however, even if prices were raised only slightly, because it resulted in a privileged class of business operators who enjoyed perpetually at least a slight advantage over others in the community. Besides higher prices for goods, two other social - evils grew out of monopoly: the deterioration of quality and the impoverishment of divers artificers, especially small local shop operators. Of these last two evils Ely had little to say, but many attempts at social control through statutory laws have dealt with them.

With reference to efforts at social control of monopolies Ely - proclaimed that certain people were advocating false doctrines. Among these was J. B. Clark's concept of potential and residual competition. There was no evidence that potential competition could destroy real monopoly that had arisen from inherent causes. One could always rely upon the same factors which produced the monopoly to continue it. Under conditions of large-scale production and specialization of capital, it would be harder to reestablish or to create a competitive situation, once destroyed, than to maintain it in the first place. In the case of true monopolies new accumulations of capital beat in vain against their

⁸ Op. cit., p. 103.

⁹ Op. cit., pp. 224-5.

doors and returned again to the competitive field "to reduce still further the gains in competitive industries."¹⁰ A second false hope was to depend upon law to enforce competition. All the laws against the trusts had gained nothing substantial. Forms and names had changed, but not the spirit or the purpose of monopolies. In fact, Ely expressed the opinion that the effect of constitutional provisions and legislative enactments had helped to increase centralization of industry and strengthen monopoly. Attempts to bring about competition in this field wasted national resources and tended to bring about commercial crises and business stagnation. Society might as well legislate that the water of all rivers should flow up instead of down as to try, through legislation, to enforce competition upon natural monopolies.¹¹ Another hopeless reform was to rely upon the repeal of tariff laws. Tariff reform was needed to uproot artificial monopolies, but such a program alone would not check natural monopolies. Finally, Ely condemned the idea of waiting for more perfect knowledge, but in the meantime doing nothing. Society could have full knowledge only concerning dead institutions. Therefore, it should not withhold action until harm had come from private action. Science should foresee evils and prevent them, not merely cure them after they had occurred.

In keeping with his reform spirit, Ely did not stop with a negative criticism of past efforts to control the evils connected with monopoly, but offered a positive social policy. He held that public activity should govern monopolies, but private activity should control competitive pursuits. The system of private ownership of natural monopolies

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Op. cit., p. 253.

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Op. cit., p. 244.

brought the only dangerous results from trusts and combinations. Two alternatives presented themselves: outright government ownership of all natural monopolies, or government control of privately owned concerns of this nature. As already pointed out in another connection, Ely favored the former plan in his early writings, but later changed his opinion.¹² He argued that, because of increased government complexity, it would be less difficult to develop successful government ownership than it would be to perfect efficient methods of control, and that government ownership would attract to the side of good government strong classes of society which, under private ownership, were arrayed against the government.

In case society resorted to regulation instead of outright ownership, Ely advocated the adoption of the New Orleans system of franchise control. Under this scheme the city limited franchises to a definite period of time, preferably fifteen years. The municipal government should sell the widely advertised franchises at auction with the city reserving the right to purchase the works for an appraised value at the expiration of the charter, with nothing added, either because of compulsory sale or on account of good will and future profits.

Whichever method of control society chose Ely's object was to abolish favoritism in the distribution of "surplus value," and ultimately to place monopoly concerns on an equal footing with competitive businesses.

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In 1868 Ely affirmed that "natural monopolies owned and controlled by cities always worked well, and you may search the world over for an exception. This is one of the few rules without exception In other words the worst instance of municipal works has proved better than ordinary private works, and probably less demoralizing politically I hold that cities are always more successful in supplying themselves with electric lights or gas than in hiring this service of private corporations, and that their success is due to economic laws closely resembling laws of nature." Ely, Problems of Today, Crowell, 1888, pp. 260-1.

Private concerns should not receive franchises free from society and sell them later for millions of dollars. With regard to competitive business, public opinion should restrict government regulation. Citizens could restrain some members of society but it would be impossible to repress everybody.¹³ It would be a bankrupt economic order when the state regulated all business.

Ely pioneered in the study of monopolies and trusts in the United States and contributed careful definitions and adequate classifications. In addition he gave a clear-cut distinction between the proper field for competitive action and that of government control. Slowly public opinion accepted his concept, and Congress incorporated the doctrine in the Transportation Act of 1920 which permitted the consolidation of railroads into non-competitive units under the supervision of the Interstate Commerce Commission. For the first time the United States government recognized railroads as natural monopolies, gave up the idea of legally enforcing competition, and adopted a new policy of regulation which extended government control to a high degree in prescribing both maximum and minimum rates, limiting the returns on railway investments, recapturing for social purposes excess earnings, forcing extended cooperation between former competitors, and regulating minutely all railway finances.

Displaying his institutional approach as in the case of the labor movement, and consistent with his reform spirit, Ely favored government intervention to control natural monopolies, or better still, to own them outright. He would correlate practical politics and applied economics to solve a menacing social problem. But, in his early writings

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R. T. Ely, Monopolies and Trusts, New York, Macmillan, 1900, p. 271.

on government ownership, Ely displayed unwarranted optimism, because, as pointed out before, he changed his viewpoint. In fact, many writers have felt that he has always shown too much confidence in the ability of the state to direct social progress.

Like other economists until quite recently, Ely dealt only with complete monopoly or pure competition. He did not deal with those cases which were neither wholly competitive nor wholly monopolistic. Therefore, he did not contribute much to the new doctrines of monopolistic competition as presented by Chamberlin, Joan Robinson, Burne, McCracken, the Royal Canadian Commission and others. He anticipated their thoughts somewhat when he affirmed that competition did its perfect work as an exception outside the great staple markets of wool, cotton, corn, stocks and bonds,¹⁴ when he said that competition was increasing in intensity in some parts of the economic field, but was steadily decreasing in others; and when he recognized that ever increasing numbers were withdrawing themselves as the pressure of competition increased.

According to Chamberlin's recent theory, competitive price forces would cease to operate when any one producer's supply got large enough to affect noticeably the total market supply. Instead of prices tending to move gradually from a condition of pure competition to the other extreme of absolute monopoly, a sharp break would appear just as soon as the supply of any one seller affected the market. If Chamberlin's position was correct, Ely limited his field of monopoly too much. He was in error, furthermore, when he contended that large-scale business was entirely distinct from monopoly. Today many large-scale operators outside Ely's natural monopoly field, such as the Ford Motor Company, -

could make their supply felt either by withholding it or by placing all of it on the market at one time. A weakness of Ely, as well as other early writers on monopoly, appeared in the fact that he did not discover accurately or surely just where competitive price forces gave way to monopoly price forces. Economic theory that discussed monopoly prices in terms of bargaining without very definite limits, prices that yielded the largest net returns, and variable prices by time, place and class, gave economists a base from which to work, but did little to explain what recent writers have called sticky prices, and price leadership. To distinguish clearly between the two sets of price forces was a valuable contribution, but, perhaps, it has been a more difficult matter to point out just where one set of forces ceased to operate and where the other set began. In the light of recent studies Ely's field of monopoly appeared too narrow in its limits and too clear-cut in its nature. He limited monopoly to public utilities and thought it easily distinguishable from the competitive field.

The current discussion of monopolistic competition, high standards of living and wage reform might correlate with Ely's new law that the price which would yield the largest net returns varied directly with the intensity of customary use, average economic well-being, and readiness of wealth expenditure. Consequently, this new law might deserve more attention from economists than it has received in the past. Herein might lie much of the explanation for the lack of parity between the prices of raw materials and manufactured products. In the field of agriculture the units of production have been so small that the effect of any one producer's total product upon total supply and the market has been negligible. Consequently, in this field, competition has prevailed and price has been the flexible factor as related to supply and demand. On the other hand, manufacturing in many lines has developed

into larger and larger units until the output of single corporations affects the supply. The large producing units began to control supply and to keep price relatively constant. Sticky prices prevailed in this field, and production became the flexible factor instead of price. Furthermore, as the sticky price field became larger and larger, the more intense became the fluctuations of price in the competitive field, because it grew smaller and smaller. Certain facts of the depression period have indicated this result. In the steel industry, for instance, prices fell very little, but production declined rapidly and severely; whereas in agriculture prices fell quickly to an all-time low level, and production actually increased in many lines. Even though farmers did not wish to increase production, they had no other alternative. Many of them had heavy fixed interest charges and taxes to pay, and, as the prices declined, the only thing left for them to do was to increase the volume of production. Ely's analysis, however, did not suggest this line of reasoning, but, on the contrary, that the relatively few monopolistic concerns should be completely removed from competition through government operation or control.

The economic student might find it profitable to test the possibility of finding at least some part of the solution to the problems of recovery and business cycles in the direction of large business units of production as compared to small units of production. This thought has at least added weight to the recent emphasis upon imperfect competition.

Chapter V

General Welfare and Social Institutions

In working out systems of thought economists have always been concerned with the proper relationship between the individual and society. Adam Smith, a founder of English political economy, contended that individual and social welfare were identical; he taught that the only way a nation could become rich was for each individual to get rich. Smith thought any state policy was wrong that hindered an individual in his honest pursuit of riches. Out of this doctrine developed the famous laissez faire conception which emphasized individual action, initiative, and contract. Lord Lauderdale, a contemporary of Smith, and certain other writers since that time, challenged the idea that public and private riches were identical; but the majority of classical and orthodox economists of England and the United States cling to the doctrine of individualism. Ely, however, held an opposite opinion, believing that at a given time general welfare might be quite different from the welfare of a given person or even of a considerable mass of citizens. The receiving individuals might gain immensely when a city gave away a valuable public utility franchise, but the people as a whole lost. Individuals might become rich through scarcity and high prices, whereas society becomes rich when goods are plentiful and sell at a reasonable price.

It was the task of political economy, according to Ely, to work out means whereby society could secure cheap and abundant production of goods and services. Technical sciences might sometimes subordinate the social point of view but political economy could never do so. Economics aimed to serve the permanent welfare of the great mass of individuals and families. Ely believed in a social theory of wealth, property and

contract. In the fifth edition of his Outlines of Economics Ely defined the science in terms of wealth-getting and wealth-using, but was careful to point out that the term wealth had various meanings, namely, material economic goods, well-being, opulence, accumulation of goods, and income. He drew a distinction between social wealth and economic wealth. The former term took the original meaning "weal" or well-being and included both climate and free goods, while the latter concept included only economic goods, that is, those useful and scarce commodities, which nature supplied insufficiently to satisfy all wants for them at a price of zero. In statistics wealth usually referred to a stock of accumulated goods at a particular time while in economics it denoted income especially when related to distribution. Wealth might deal either with the accumulation of goods or the flow of income, declared Ely, but it was a mistake to confine the term to material goods only. There was private wealth with private income, social wealth with social income, and public wealth with public income. The ideal of social welfare was equality of opportunity.

Ely's ideas emphasized duties and responsibilities as contrasted with the late eighteenth century individualism which magnified rights and privileges. The individualistic philosophy tended to exclude social interests, and consequently, the state had little consciousness of any great economic responsibilities. On the other hand, in order to guard and promote the general welfare, Ely envisioned the state always using certain slowly changing social institutions like private property, contract, vested interests, and police power. Institutions represented relatively permanent and formal ways of dealing with social situations which arose out of somewhat fixed needs and want; they were a part of the social heritage of a cultural complex of traditions, codes, ceremonials, administrative machinery and physical equipment. William Graham Sumner traced the evolution of institutions from need through

folkways, and with the addition of a philosophy of welfare, to mores.

As social ideas became specific with rules, prescribed acts, and apparatus, structure developed to complete the institution. Neither nature nor the individual created these socio-economic elements, but society. As society developed it displayed an ever clearer conception of purpose; its actions became more and more deliberate. Underlying institutions furnished the media through which social forces operated to shape and modify distribution.

Through the explanation and application of socio-economic institutions Ely has, perhaps, made his most significant contribution to modern political economy, in his social theory of property and contract, expounded in his two volume work, Property and Contract.¹ The major institution to which Ely gave first place in his Economic System was the state itself, which assumed importance in all of his major works, but especially in connection with his reform programs. The state was a divine institution along with the church and the family. He did not imply perfection in form, however, for an institution was divine in idea only. The state had a natural and spontaneous growth, was more inclusive than the family, and had an existence prior to the church.² Since the state was based upon human nature, and since men were born into the state, formal government became a natural condition and an important force in molding society.

In Ely's political economy the only limit to the state's sovereign power was the ability to do good. Duties and functions were co-extensive

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Perhaps this work never received the attention it should have, because it was published in 1914 at the outbreak of the first World War. It represented some twenty to twenty-five years of intensive study by the author and made up a large and vital part of his economic system. Ely, Property and Contract, New York, MacMillan, 1914.

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R. T. Ely, Social Law of Service, p. 162.

with power. Although the basis of the economic life of modern nations was individual responsibility, the individual, in order to attain his ends, found it most advantageous to cooperate with his fellows through the town, state, and federal government. Well performed public duties, as well as private duties, proved helpful in the development of both the individual and the race.

The church and state were much alike both in nature and purpose. In fact, it was their likeness, asserted Ely, that caused conflict between them. In a strict sense the state should enact only religious laws for regulating factories, establishing education, providing recreation, guaranteeing honest governmental administration, and rendering courts accessible to the poor as well as the rich. Society should emphasize the fact that offenses against the purity of political life were direct offenses against God. Acceptable government offered the greatest power for good. Neither could good government result from the Jeffersonian slogan that the best government governed least. Society never made government good by reducing it to insignificance. The beneficial, coercive, cooperative power of the state has done in education, sanitation, and philanthropy what individual effort alone could never have accomplished.

Social control could be formal or informal. The latter type depended upon public opinion, custom, tradition, folkways and mores, while the former was based upon constitutions, laws and courts. Ely declared that laws influenced society to such an extent that men obeyed them spontaneously. He placed little confidence in the slogan, "you can't make men good by law," and asserted that he had "never heard anybody say that, except when he was trying in some way to hinder the kingdom of God."³ Laws established the conditions of social life, made morality possible,

became the bulwark of person and property, and guaranteed peace. The strong arm of the law gave order to the frontier, abolished slavery, made popular education possible, and secured public worship in accordance with free conscience.

Utilizing both formal and informal control economic society operated through other social institutions than the state, and its agencies in the efforts to secure general welfare rather than individual benefit. The most important of these were property, contract, vested interests, and police power.

Ely defined property as a "bundle of rights."⁴ Additions and subtractions affected the bundle from time to time. The essential idea in property was exclusive control. Property like wealth could be either public or private. In the latter case, a private individual possessed the exclusive control over some economic good, to which the property right extended. But, if the exclusive control belonged to a government unit, public property existed as in the case of parks, national forests, highways, and public libraries.⁵ Although private property rights were

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R. T. Ely, Property and Contract, Vol. I, p. 60.

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Ely classified property as follows:

A. As to property subjects

- I. Common property--a step beyond free goods. Tribes owned the property. This was different from private property and also from public property. It was an institution that would fit with difficulty into our legal arrangements in the United States under complex conditions.
- II. Property in severalty
- III. Public Property
- IV. Private property
- V. Property of partnerships
- VI. Collective corporate property: (1) Private (2) Quasi-public (3) Collective property of public corporations and bodies.

B. As to property objects

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|--------------------------------------|---|
| I. In human beings | VII. In immobilia |
| II. Outside of human beings | VIII. In enjoyment -- consumption goods |
| III. In corporeal things | IX. In production. |
| IV. In personal service | |
| V. In relation to persons and things | |
| VI. In mobilia | |

R. T. Ely, Property and Contract, Vol. I, pp. 288-90.

exclusive they were not absolute, for the state could always take such property for public use. Private property implied the assent of the state as well as protection from the state. It also had a social side which was not something exceptional but normal and regular. As a rule the social side failed to receive adequate recognition and development unless the state itself made active conscious efforts in the matter. Private property never carried the right of its misuse in violation of social welfare. In the interest of the greatest good for the largest number the modern state stood in the background with reservations and limitations upon the citizen.

Property rights took shape in the process of social evolution. Free goods became property, public property changed to private property or vice versa, and extensive forms of property made way for intensive forms, because all social evolution promoted general welfare. On the other hand public welfare itself demanded private property, in order to give freedom to individuals. Property owners largely supported the government. Property, therefore, became not only the price of progress but the price of security as well.

Ely found the institution of contract no less important to economic society than property. In many aspects both were similar and each conditioned the other. He defined contracts as "agreements of economic significance which are enforceable by public authority."⁶ Without public enforcement they could not exist. Society also set several essential conditions which had to be fulfilled in order that contracts be binding. Out of the individualism of the eighteenth century developed the so-called equality of contract, as a part of modern freedom. But the unequal

conditions in the background did not insure essential equality, because only great inequality could result from equal treatment of unequals. Society always placed public welfare, public necessity and public policy above private contract. Certain contracts like gambling and pooling violated public policy, and, consequently, the courts would no longer enforce them. Public policy made it possible to reject agreements of an immoral character even if there was no statute which forbade them. The United States would not allow an individual to contract himself into slavery but China still permitted such a contract. American society prohibited entailed estates and primogeniture in inheritance, while England retained both of them. It has been possible at a given time or place to over-emphasize or under-emphasize either the public or private side of these institutions.⁷

The basic institutions of property and freedom of contract were especially significant in distribution, and vital to the whole economic organization. Ely based both property and contract upon his social theory.⁸ The specific application of this doctrine existed in the matter of using or

⁷ Ely summarized the situation in regard to contract as follows: "Contract has its individual side and its social side, but the social side is dominant and controlling and contracts of far-reaching significance are determined in their character by the legislative power while our courts are constantly setting aside some contracts as contrary to public policyContract finds its limitations in the social welfareon account of false ideas of freedom courts are less advanced in recognizing the social theory of contract than in recognizing the social theory in property." R. T. Ely, Property and Contract, New York, Macmillan, 1914, Vol. II, pp. 316-7.

⁸ Ely said, "I brought forth the view that property and contract were established and are maintained for social purposes and find their limitations in social welfare. I elaborated, and I think successfully, the social theory of property and the social theory of contract. I stood for both property and contract, but not as absolute categories. I maintained that there is no such thing as an absolute right of property or of contract, but that they are both flexible and must be modified to meet changes in economic conditions." R. T. Ely, Property and Contract, Vol. I, p. 271.

sharing of one's means. Whatever property an individual had in his hands came as a trust from society; he should, therefore, use or share his property in the way which best served social welfare. Ely thought many people desired industrial democracy, including most of the best economists, if it came by evolution and not by revolution.

Closely related to property and contract was another important social institution of economic significance known as vested interests--an economic right which the law recognized and could not directly or indirectly impair without indemnification. Such interests arose out of private contract, property, custom, and continuous usage. Recognition of such rights developed out of the ethical ideals of the period and depended upon the strength of the class insisting upon them and the ease with which practical measures could accomplish them. Vested rights promoted social mobility and served to make peaceful change relatively easy, to produce maximum change with a minimum of pain.

About the middle of the eighteenth century in England,--a classic land for vested interests,--certain classes successfully challenged for the first time the doctrine of vested interests in trade. Prior to that date, to infringe upon a man's occupation was like stealing his goods. Social conflicts arose in connection with vested interests when radicals insisted upon social progress through sacrificing vested rights and demanded of the state that she break faith with those who trusted in the principle. On the other hand conservatives shrank with horror from such violation of economic justice but at the same time ignored real grievances which the radicals desired to remedy.

One political reservation, police power, asserted the general welfare idea. Under the doctrine of police power individuals made all contracts, held all property, and interpreted liberty. Under this power the state

could destroy private property, even without compensation, in order to protect health, safety, and the morals of society. Under this doctrine society could make comparatively small invasions of property and contract without compensation.⁹ The American constitution committed to the courts - the power whereby they shaped property and contract to existing social conditions. Police power has sought to preserve the development of both the individual and social sides of private property and contract and thereby to preserve satisfactory equilibrium between them. Society has given the courts power to interpret private property and to set its metes and bounds in contrast with public property. Police power has maintained the social side of property, and, by always keeping in line with social needs and welfare, has given flexibility to private property.

In conformity with Ely's reform objectives for political economy social institutions always tended to bring about "essential" equality among men. The state should consciously direct the development of its institutions in order to speed up progress in the desired direction. He specifically mentioned such reforms as the labor movement, public improvements, taxation, consumption and socialism.

Ely favored the labor movement that maintained a broad viewpoint and treated the problems of labor, management, and society in the light of general welfare. Because the great mass of society had to remain laborers, he was interested in those movements that protected and advanced the interests of the average man. A hundred men might struggle over so hard,

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Ely said: "We want legislatures and courts to understand that we need - private property as well as public property. It is rooted in natural law, in the sense that it corresponds to the need of human nature as human nature has developed and must necessarily develop in a world like ours but private property is flexible, and finds its limits in the general welfare, and thus is grounded on a firm foundation." R. T. Ely, Property and Contract, Vol. II, pp. 700-1.

But, if there was to be only one leader, then ninety-nine had to remain in the ranks. The problem was not to lift a laborer here and there, either within his class or out of his class, but to elevate the whole group; the aim was to improve the farmer as a farmer, the machinist as a machinist, and the artisan as an artisan. The state should impose positive legislation in the form of employers' liability laws, sanitary inspection, prohibition of child labor, and restriction of the employment of women. Every measure that improved the workingmen's environment deserved commendation because it enabled them to be happier, more intelligent, more moral and more prosperous. By positive social policy it was altogether desirable to raise wages, to shorten hours and to improve dwellings for laborers. Ely further suggested that vested interests could be used by society to protect labor's skill in that workers be indemnified for any loss as a result of general social progress. If technological improvements caused skilled workmen to lose their jobs they might be indemnified for such loss in keeping with the social practice of paying the private land owner for unearned increment in land. Some have argued that every kind of property had ample protection except the poor man's only property, his and his children's industrious habits.¹⁰

In early American tariff legislation there was supposed to be protection for labor against foreign competition. Ely pointed out that the commodity that workmen sold was labor, and public policy did not restrict immigration. Furthermore, the practice of restricting foreign competition raised the price of goods to labor. Therefore, labor not only received no protection on the commodity it sold, but suffered a penalty on what it bought. The government, while pretending to help labor, worked

against it both by encouraging immigration and by raising the price of goods. A tariff for the general welfare of labor would tax the commodity - labor by placing a per capita charge upon every foreigner landed in the United States, and would remove the tariff on goods to encourage a plentiful importation of foreign commodities used by labor. Literally, the situation showed that the "laborer sells his commodity in a free market and buys in a protected market."¹¹ On the other hand Ely emphasized the fact that both individual laborers and trade unions also bore responsibility to general welfare.¹²

In order to benefit the under-privileged of society, Ely urged that public improvements should go forward as fast as municipal finances permitted. Cities should fully utilize and extend public properties like recreation grounds, public libraries, and art galleries. A highly developed society could well afford large aggregate expenditures of this type because

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R. T. Ely, Problems of Today, New York, Crowell, 1888, p. 74.

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Ely gave the following advice to workingmen:

1. Every workingman should make himself more indispensable in his place -- a better man and a better workman.
2. There was no help in drink -- the poor man's curse and the rich man's shame.
3. Let labor beware of political party demagoguery, lest labor become merely a stepping stone for politicians who have no real interest in labor.
4. Labor should follow the way of peace and shun violence.
5. In stressing the bad in the present social order one should not overlook the good. One should resist wrong but stay within the law. Society has achieved the good by long centuries of sacrifice.
6. Cast aside envy -- forget any effort to level down to equality. Cultivate and admire superiority. Nothing could be more disastrous even for labor as a class than to have to live in a society where all were equals.
7. Stick to the right and reasonable. It was bound to win -- educate, organize, and wait.
8. Christ and Christly people were favorable to labor if labor clung to the right. Do not forget Christianity, the church and the church's leaders. Seek their help. R. T. Ely, The Labor Movement in America, New York, Crowell, 1886, Preface.

the costs diminished with the increasing numbers who enjoyed them. Society could afford to expend millions of dollars for public art galleries since the benefits extended to countless thousands, and continued for generations. On the same principle the satisfaction derived from fine architecture justified grand public buildings. In cities, moreover, cheap water, lights and transportation had become indispensable elements of life, as well as elements in the costs of business. Municipalities should guarantee these indispensable elements in order to attract more people to the community. Governments ought to use the taxing power to expand public works, since the state could use taxation to create monopolies or prevent them, to diffuse wealth or concentrate it, to promote liberty and equality or establish tyranny and despotism, to bring reforms or aggravate existing grievances.¹³ The basic principle, however, for the state to follow in taxation was never to tax anything of value, if it could or would run away as a result of the tax, or never to tax an object that could or would come to the state without the tax. Ely would reduce city taxes by using fully and completely for public benefits all natural monopolies. From every natural monopoly using public property he would exact full compensation so as to make just as good terms for the public as a private man could make for himself.¹⁴ Also he would tax inheritances so that the dead could not rule the living or hamper them in their freedom of movement.¹⁵

Public welfare also involved social control of consumption since consumption of wealth was the purpose of both its production and acquisition. One who spent without earning was a parasite and lived upon the

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R. T. Ely, Problems of Today, p. 167.

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Op. cit., p. 174.

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Op. cit., p. 191.

toil of others. As in the use of one's time, individual responsibility might be more pronounced in spending than in earning; society faced a grave danger in the waste and indolence of the idle rich, as well as in the concentration of wealth in their hands. All was not gain from private property; only the net gain or loss should decide the direction of society's control. Extravagance found no defense in the plea that it gave employment to labor, for society as a whole had at a given time a certain amount of money to be used either wisely or foolishly. Any one who used wealth foolishly hurt society; he who used it wisely benefitted society. From this viewpoint society should restrain the sale of harmful goods like drugs, intoxicating liquors and impure foods.

In connection with all of these socio-economic institutions, ideas of what was proper for private welfare and what was proper for general welfare corresponded with changing conditions of time and place, but the public interest was always dominant. Public interest controlled the institutions, since it was social purpose that established and maintained them. If a people clearly perceived that public property was better than private property, then it should have public property. The social theory of property, contract, and vested interests gave certain results, namely, a conservative and utilitarian basis for the state, an historical view of continuous growth of the state in keeping with essential needs of the people, and flexible social institutions fitting the exigencies of any situation. Social institutions found their limitations in general welfare and consequently could not lead to the destruction of society. Such a view protected private property in its true sphere, but when institutions became injurious to society it became necessary to destroy them or change them to a beneficial form.

In analyzing the strength and weakness of Ely's Economic System one should give considerable significance to his institutional approach discussed in this section. This approach was characteristic of - and basic

in all of his works, but particularly in his Property and Contract which appeared to be the most original and distinctive of his writings. Whatever theoretical unity and strength his Economic System possessed, centered in the doctrines that all of the social institutions including the state itself lined up with a general welfare principle which in turn squared perfectly with Christian ethics. Social solidarity emerged from the concepts of the fatherhood of God and the brotherhood of man to include all social organizations like the church, state, labor unions, and schools. In keeping with each citizen's capacity all social institutions worked toward the teleological goal of progress--equality of opportunity.

His Economic System was not averse to change, in fact, it was essentially based upon it; but proper changes should come one step at a time, after careful analysis of all factors and after balancing advantages against disadvantages. His system disapproved any revolutionary changes based upon individual or class selfishness. Social institutions had to be consistent always with Christian ethics and general welfare. All partial rights both public and private were institutional in nature and had great significance in matters of economic distribution, production, consumption and exchange. As these institutional fundamentals were subject to change; so did the basic nature of economics change. He allowed no conflict between individual interests and social interests because the latter always took precedence. Because the courts and laws already recognized the dominant interests of society, the existent institutions furnished the groundwork for evolutionary progress in the interests of handicapped classes. Ely predicted boldly that society would see more and more clearly the broad social interests prevail and come forward. He thought society needed to gear all legal aspects into this general welfare concept in order to move out of the past into the light of the twentieth century.

Since 1880, when Ely began to write, many social developments have added to his arguments. Courts in every civilized land have recognized the fact of public policy which must be considered in the making and executing of all contracts. Regulation of business in the interests of the weaker elements of society has developed, and has extended to cover certain types of businesses like railroads, banks, and insurance companies, as well as many business practices like advertising, selling of securities, and unfair competition. During more recent developments government regulation has extended to such matters as social insurance, crop control, and wage regulation. Many of these developments Ely seemed to have anticipated in his proposed government ownership or control in such books as the following: Strength and Weakness of Socialism, Problems of Today, Taxation in American States and Cities, Social Aspects of Christianity, Law of Social Service, Monopolies and Trusts, Outlines of Economics, Studies in the Evolution of Industrial Society, and Property and Contract.

Another strong point of Ely's system was in the fact that the student of his writings had no difficulty in knowing which viewpoint he took, that of the individual or of society. Many economists have not made their positions altogether clear on this point.

In some of these matters, however, Ely appeared either inconsistent or too optimistic. In his attack upon eighteenth century individualism, as he called it, he implied that its advocates forgot general welfare. Such was not the viewpoint of classical economists at all; they were as much interested in general welfare as other writers, but they believed that general welfare could best be achieved through the individual approach rather than through state interference. It was not an argument over object to be attained, but rather one concerning the method of obtaining it.

Ely spoke of the state, church and family as divine institutions

but private property, contract, and police power as of social origin. It has always been difficult for those with the scientific approach to grasp his distinction in this connection, and nowhere did he make himself perfectly clear on the matter.

He continually attacked the natural law concept of the orthodox economists but he also referred to certain natural laws which underlay society. These laws when thoroughly understood coincided with the morals and the best interests of men. It was the problem of science to discover these natural laws, obey them, and move forward in progress. In this sense only did man have his destiny in his own hands. In this manner society would transform the state from a necessary evil into a beneficent instrument. One never found in Ely's works just where he discovered these complex and relative laws, or stated them so the student could recognize them. He always spoke of his political economy as a science but he often failed to disclose the laws upon which progress depended for its forward movements.

The careful student of Ely's works could hardly conclude but that he placed too much confidence in the state and other formal institutional control in carrying out his good works. The American state has been a "cockpit of strife," and always under the influence, if not the control, of men interested in a spoils system. Practical democracy in the United States could lay very little claim to purity, and this fact has been - especially true of municipal government, where Ely's reform powers of society would center. In applied politics, throughout our history, every smaller area and group through its typical representative of the people, has tended to grab from the larger group for the particular benefit of the area, if not for the representative himself. A student of American democracy would have difficulty in believing that society would purify government simply by making it stronger and by extending its powers and

functions. It might be as difficult to reform the government as business, in fact, many students have felt that the larger and more difficult reform concerned the government. Richer prizes would give greater incentives for spoils, corruption, and extravagance.

As a basic principle Ely advocated that society should make only such changes as were clearly in the interest of social welfare. There could be little assurance that authority would work better by simply changing it from the economic to the political realm. It would appear doubtful that society could ever be clear that such a shift would be good for society.

If one delved into many practical social problems he, perhaps, could hardly doubt that there was serious conflict between individual interests and social interests. One might readily question, however, whether or not Ely's proposed extension of governmental functions was possible, and at the same time retain capitalism and prevent socialism as he persistently argued. It seemed entirely inconsistent to many thinkers to argue for such broad extensions of government functions and at the same time refuse to go all the way with socialists. In view of the radical onslaughts some felt that Ely over-valued the good points of socialism, to such an extent as to make the capitalist defense harder than otherwise would have been. The fair-minded student might grant most of the major charges of socialists against capitalism, namely, that capitalism wasted natural and human resources, that it led to bitter class struggle, that it resulted in unequal opportunities and distribution, that it gave undue power of control to the rich, that it tended toward the concentration of both wealth and industries, that it allowed a minority to exploit the majority, and that it tolerated uneven production. On the other hand, the same student might refuse to believe that socialism would

eliminate or even considerably reduce these evils. Ely seemed to take just this view, but his proposal to adopt ameliorative measures in order to solve the issues between socialists and capitalists brought upon him some very bitter criticism. As yet it has been very difficult to judge whether or not Ely's tolerant attitude toward socialism produced more light or more heat.

Chapter VI

Dynamics Versus Statics

Statics in political economy has concerned itself with economic forces in equilibrium, and might deal with the present, past, or future. Growth and change have meant the opposite of equilibrium. Economic students who sought to explain results under a state of social equilibrium have stressed the following main features: long-run factors and results, unchanging institutions and assumptions, automatic forces, rational behavior, pure competition, exclusive monopoly, perfect mobility of factors, stable prices, general averages, and predictable results. In contrast scholars who have studied economics in a state of disequilibrium or dynamics have discussed: short-run factors and results, technological improvements, relativity, individual variations, exceptional cases, imperfect competition, partial monopoly, irrational man, evolution, revolution, fluctuating business, and unpredictable results.

Much economics has been written under each hypothesis and excellent contributions have been made to the total economic literature. As pointed out in an earlier chapter, Ely stressed dynamics and change. His study and experience in Germany led him to tie up economics with the state, making a living, current problems, and reform. Also his basic philosophy that man was the beginning and end of all in economics, more¹ or less naturally led him into the study of dynamics. He recognized

¹Ely remarked that "we must always remember that in our actual life we deal with dynamic forces, and conditions of a stationary equilibrium are simply assumed as a scientific aid." R. T. Ely, Property and Contract, Vol., I, p. 35.

however, an element of relative permanency in society. He found every phase of society subject to change, even including the fundamental social institutions like property and contract.

Socialists, for example, were not interested merely in changing the facts of distribution and leaving the fundamentals the same; they were interested in changing fundamentals like private property, inheritance, and private contract. These basic institutions were constantly changing even though during short periods of time the fact was not very noticeable. Ely's definition of property, a bundle of rights, implied changes. For private property the bundle was constantly becoming larger or smaller in contrast with public property. In fact, man himself at one time was private property. Over long periods of time public policy changed considerably.

Most economic literature, as well as American and English courts based upon theories of natural and inalienable rights, took for granted the basic assumption of private property. Also the theory of law assumed it would be impossible to have present civilization without the institution of private property in some form or other.

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In connection with writing his Property and Contract Ely said, "I have been struck by the orderly nature and continuity of progress and also by the internationalism of law and institutions corresponding to economic internationalism." op. cit., Preface.

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On this point Ely said, "Take men as they exist today in Germany, in England, in the United States, with their characteristics whatever they may be, with their individual qualities whatever they are, neither more or less temperate, neither more nor less frugal and intellectual than now; gifted with neither more nor less foresight and self-control than now; nevertheless a change in the fundamentals will bring about a corresponding and commensurate change in the distribution of wealth." Op. cit., Vol., I, p. 56.

The theory of natural and inalienable rights to property has received more than one considerable blow in the United States as in the case of slavery, liquor and drugs. When any form of property has offended the conscience of the people it has stood in danger of being taken away from the individuals. In these cases the government has expropriated the property without compensation, although, as a general rule in the United States, the government has taken private property only for public use and upon due compensation. The government not only seized illegal liquor but also personal property used in connection with it, including automobiles and trucks. The government might seize and destroy, with or without compensation, tubercular cows of a dairyman, in the interest of public health. After all, the individual acquired his rights through society, and, consequently, society could modify such rights.

Social changes were largely a result of human will and guidance, since human will was a leading economic factor. Political economy which, broadly speaking, dealt with men and external physical objects was a peculiar science in that it occupied a position midway between natural sciences and mental and moral sciences. Economic life was partly governed by social laws over which individual men had little control, and to a still greater extent by physical laws which men could not alter in the least. Man could order his own life, however, by utilizing these laws to best advantage, his power was very great, and was daily becoming greater as he learned how to subjugate and to live better under natural laws. Within certain limits society could have just such an economic life as it wished. Herein lay the responsibility for the character of national economy; a society need not try to evade or shift this responsibility. A nation could have continual progress in the sense that each generation, through its activities and institutions, achieved the demands

of humanity and justice in a higher degree than the previous generation. Herein existed the basis for a higher civilization for both individuals and nations.

Ely recognized the great significance of the short-run effects of change, because of the fact that for many of the older ones of a given generation the short-run was the last run. He saw a lag in human adjustments because life was social, whereas economic activities were still very largely individual.

Although it was unquestionably true that society could not have universal over-production because of the fact that the legitimate wants of mankind could never be fully satisfied, improvements in production were, nevertheless, throwing men out of employment and decreasing the power to satisfy wants.⁴ In the long-run such difficulties tended to disappear, but that fact did not help the man who was hungry and whose children lacked food and shelter.

In 1931 in his book, Hard Times, the Way In and the Way Out, Ely made use of what he called the allegory of the ways into hard times, based upon Bunyan's Pilgrim's Progress. One gate he named Great Expectations which opened to various routes like excessive optimism, anticipation, and wild speculation. Within this gate was fear. Before one arrived inside it soap bubbles sold as if made of gold, but once on the inside, to sell anything at a reasonable price became impossible; and if one owned real estate, he could scarcely give it away. Other gateways into hard times were Overexpansion, Ill-balanced and Disproportionate Production, Taxation, Subdivisions of Land, and War. Taxation, declared Ely, lagged⁵ fifty years or more behind the stage of economic development.

⁴ R. T. Ely, Hard Times, the Way In and the Way Out, New York, Macmillan, 1931, p. 89.

⁵ Op. cit., pp. 7-8.

Referring to the recent depression he said that judging from the past, prosperity would follow hard times. Generally speaking, prosperity that has followed hard times has been greater than that preceding hard times. It would be taking too much for granted, as well as dangerous and unwarranted, to assume without questioning that the next period of prosperity would be better than ever before. But even if such prosperity did follow, there would still remain the stark reality that hundreds of thousands, and on a world-wide scale, millions of human individuals have suffered immeasurably. Many human wrecks who have degenerated mentally, physically, and morally would remain to be forgotten. After all, the life of the individual was not a long run but a short run.

The statics or dynamics of any phase of economics like distribution, was a part of the larger statics and dynamics of the whole industrial society. In turn this statics and dynamics was a part of the larger dynamics and statics of social forces. In the sense that the Industrial Revolution was due to the efforts of individuals to better their social status it was chiefly the result of the doctrine of individualism, but not solely so. Only gradually have the productive processes been brought under more or less conscious control. The social control of the distributive processes have been still slower, yet, socially speaking, the period of the Industrial Revolution was very dynamic.

Kly pointed out a general tendency in the United States to ascribe to foreign elements within our borders the responsibility for unrest and dissatisfaction with the social order. He declared that the general features of industrial society were very similar in all modern countries. One should, therefore, look within the nature of economic society itself for the causes of existing and pressing economic problems. One cause for the existence of economic problems lay in the improper extension

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of private activity into public spheres, as when private concerns attempted to supply gas and electric services, or to operate railroads. For new and heretofore unknown conditions, society required new laws, new institutions, and new ideals in legislation.

As one has followed Ely's social welfare theory of property, and thought upon current social and economic problems, he might readily conclude that there has been a tendency toward an increasing public interest in private property as manifested in progressive income taxes, doubly progressive inheritance taxes, and public regulation, supervision, and ownership of various types of business. During the New Deal there has been an enormous expansion of the idea in the creation of large and expanding public works, the creation and setting up of social security, the regulation of wages and hours, crop control, and the creation of huge financial corporations like the Reconstruction Finance Corporation, Home Owners Loan Corporation, and Federal Deposit Insurance Corporation.

Looking back over United States history one can also see changes in the opposite direction. In the beginning of our national history the government owned a vast public domain of lands--mineral rights, forests, and natural resources of all kinds. Through a national policy of rapid economic expansion and settlement of our frontier, this vast public domain quickly vanished through donations to railroads and homesteaders and through sale into private possessions of individuals, corporations, and land speculation associations. In more recent years a reaction to the early policy has appeared due to the disappearance of natural resources, waste, and exploitation for private gain. The government has already given considerable emphasis to the conservation movement, and one might safely predict more emphasis will be given in the future. The government has recently reserved many of the mineral rights and attempted

to make a classification of the public domain in such a way that lands unsuitable for agriculture might be permanently held by the federal government. Ely proposed that all of the land of the United States, even of the world, should be carefully and elaborately classified, so as to know for what each acre was best fitted. Since the New Deal began the United States government has entered upon a new public policy of buying up large tracts of sub-marginal land in order to add it to the public domain in the form of forest reserves, flood control areas, hydro-electric power developments, national parks, and recreational areas. There has occurred a constant transformation of property from public to private hands and vice versa. In the United States the transformation of public property into private property has been relatively easy but it may prove more difficult to reverse the process.

Ely, along with other economic writers, questioned certain basic assumptions. The fundamental selfishness of man has been an assumption of most advocates of individualism. Socialists, religionists, and humanitarians have questioned the idea. Each one has known individuals who showed more evidence of altruism than selfishness, even in spite of all emphasis to the contrary. Man's laziness was another economic axiom of the past. On the contrary one has no doubt read the assertion that laziness was an evidence of disease or ill-health in man. Many individuals have shown little evidence of being lazy. Again, most economists since the days of the Physiocrats have used the idea that nature was niggardly and that there was always a scarcity of goods, and, yet, certain writers have held to the idea of general over-production and glutted markets. Now, for almost a decade a great nation, the United States of America, has followed a program of restriction of output, and even of food destruction, in order to bring back prosperity.

This historical evidence has borne testimony on the side of the argument that since social conditions have constantly changed, one's

economic doctrines might also need to change. Lester F. Ward, one time called the Aristotle of America, spoke of wanting a progressive sociology and Ely sought a progressive economics. Out of such concepts as those of Ward and Ely one could hope for a successfully planned society. One should not, however, place too much dependence either in economic or social magic, and should not believe too readily in simple social formulae or panaceas. If the student would make simplified assumptions for scientific purposes, he should come back to actual dynamic situations of society to test them. It might be conceivable that economics could evolve from a static into a dynamic science, but it would be much harder to visualize the converse situation.

Ely not only conceived it as possible, but proposed that society direct itself by one reform after another toward teleological ends, utilizing Christian ethics to guide both economic and legislative actions. Many economists have doubted the possibility of this perfectibility of man and have denied even the teleological purpose of any science, especially of economics. They may have correctly felt that much of Ely's fine results were wishful thinking or conclusions of a crusading advocate.

CHAPTER VII

Relativity and Evolution Versus Absolutism

The doctrine of absolutism in economics took two forms, cosmopolitanism and perpetualism. The former doctrine taught that economic principles applied equally to all nations at a given time, while the latter held that economic laws applied equally to all nations at all times. Ely's doctrines of relativity and evolution limited the application of economic laws by time and circumstance. The present was always an outgrowth of the past and could be understood only by studying the past in its relation to the present. In turn the past and the present would largely determine the future.

This conflict of ideas involved again the orthodox and historical schools of economic thought with Ely on the side of the latter. He gave the essential features of his doctrine of relativity and evolution as follows: he rejected all a priori doctrines or assumptions, or rather postponed their final acceptance until external observation proved them correct. Both the conditions of economic life and economic theory, in whatever form found and with whatever argument and conclusions supported, were a product of historical development; economic concepts grew out of conditions of time, place, and nationality, in vital connection with the entire organism of an historical period, existed with these conditions, and continued to develop with them. Economic doctrines rooted in historical life, and required historical solutions for their conclusions. All the universal laws of political economy represented only a progressive historical exposition with an advancing manifestation of truth. In every state of its progress the theory of political economy was the generalization of truths recognized up to a certain point of time; this theory could not be declared complete either in respect to

form or substance. When absolutism of theory had acquired credit it should be regarded only as an offspring of a definite period in the historical development of political economy.¹

Ely felt that modern economists had infused a new spirit and purpose into the science, by placing man instead of wealth in the foreground, and by subordinating everything to man's true welfare. They also gave special prominence to the social factor which they discovered in man's nature and recognized thereby a kind of divine right in the associations called towns, states and nations. The economists of the historical school were further animated by a fixed purpose to elevate mankind, and particularly the great masses, as far as this could be done by human contrivance of an economic nature. They stressed, therefore, both the distribution² and production of wealth.

Although modern economists made no profession of an ability to solve all economic problems in advance, they endeavored to train people to an intelligent understanding of economic phenomena, in order that they might be able to solve concrete problems when they arose. The nation in its economic life was an organism including individuals, families, towns, and even provinces. An organism was composed of inter-dependent parts, which performed functions essential to the life of the whole, but indeed³ was something more than a mere aggregate of its parts.

¹ R. T. Ely, Past and Present of Political Economy, Baltimore, Johns Hopkins University Press, 1884, pp. 46-7.

² Op. cit., p. 48.

³ Op. cit., p. 48.

This new school had its beginning with three young German economists who began to attract attention about 1850: Wilhelm Roscher, Bruno Hildebrand, and Karl Knies.⁴ Knies was Ely's teacher and master. These men were not merely criticizing the conclusions of the English school of political economy but were challenging the methods, basic assumptions and major premises--the very axioms of the science. They adopted experience as their guide, interpreted the present in terms of the past, and forecast the future by the present. Their method was experimental. The whole life of the world, all historical experience, became grand economic experiments, which they could examine. They called statistics to their aid for the study of the present, so their method has been called the statistical method. They used data from various countries and various parts of the same country, so their method has been called the comparative method. As only one phase of social science, political economy dealt with the economic aspects of social phenomena. Economics was not fixed and unalterable; it was a growth making changes along with society.

Ely agreed with Wagner, another of his teachers, upon the three essential and distinct principles of all economic life: the individual, with whom the orthodox school had dealt too exclusively; the social which acted through the state; and the principle of brotherly love, which appeared in voluntary action in behalf of others.

A significant contribution of this younger school included the emphasis it placed upon the impossibility of founding a purely theoretical science altogether apart from the consideration of policy.

For Ely the change in the spirit of political economy was an event

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Leaders of this new school were: (1) In Germany--Roscher, Hildebrand, and Knies; (2) In England--Bagehot, Jevons, Rogers, and Leslie; (3) In America--Francis A. Walker; (4) In Belgium--M. de Laveleye; (5) In Italy--Cossa, Cusumano, and Lampertico.

which gave occasion for rejoicing. The historical method could lead to no doctrinaire extremes. Experience was the basis of approach in economic study and if experience showed the economist that the realization of his ideas was leading to harm, he could call a halt. For Ely desired that advance should be made step by step, with opportunity given for careful observation of the effects of any given course of action. This younger political economy no longer permitted the science to be used as a tool in the hands of the greedy and avaricious to keep down and oppress the laboring classes. It refused either to acknowledge laissez-faire as an excuse for doing nothing while people starved or to admit the all-sufficiency of competition as a plea for grinding the poor. It denoted a return to the principles of common sense and Christian precept. Love, generosity, self-sacrifice, and all that was best and truest in human nature had a place in economic life. Economists of the historical school, the political economy of the present, recognized with Thomas Hughes that society had to learn somehow or other that the first duty of man in trade, as in other departments of human employment, was to follow the Golden Rule.

The group from which the historical school broke away has been called deductive, orthodox, English, idealistic, classical, and Manchester. In contrast the newer school has been designated inductive, German, realistic, and historical. Founders of the orthodox school were Smith, Ricardo, Senior, James--and John Stuart Mill.

The basic teachings of the classical economists were: that economics was relatively simple; the proper method was deduction; and certain assumptions like unrestrained self-interest, love of ease, aversion for

work, perfect mobility of factors and beneficent powers of nature universally prevailed.⁶ The few general propositions resulting from observation or consciousness scarcely required proof or even formal statement, because, almost every man, as soon as he heard them, found them familiar to his thoughts or included in his previous knowledge. Classical economists conferring upon all these hypotheses the dignity of natural law not only believed the principles held good for all times and places, but also attached the same universal character to carefully made deductions from these basic assumptions.

These writers tried to make of political economy a pure science considered entirely apart from social policy. Policy would become a changing, fluctuating factor and hence a disturbing element in an otherwise immutable situation. Economics as a science, therefore, had no purpose. Such a system had attractive features. It was simple in comparison with the confusing and bewildering complexity of economic phenomena. It presented the whole science in a few easily managed formulae which would solve all social problems at a moment's notice at any time or place. It required but a few hours of study to make the village schoolmaster both

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Ely attributed to Senior the following summary of the premises of political economy: (1) every man desired to obtain additional wealth with as little sacrifice as possible; (2) moral or physical evil, and a fear of a deficiency of those articles of wealth which the habits of each class of inhabitants led them to require limited the population of the world; (3) the powers of labor and other instruments of production could be indefinitely increased by using their products as a means of farther production; and (4) agricultural skill remaining the same, the aggregate product from land increased with additional labor bestowed, but not in proportion to the increase of labor.

Ely, Past and Present of Political Economy, p. 8.

a statesman and a political economist. It appeared very nearly perfect and complete since these economists had found the absolute truth. It gained favor for its adherents with the existing powers in state and society, because by preaching the doctrine of let alone it agreed with individualistic eighteenth century philosophy which prevailed in most other social relationships and religion.

This orthodox school divided the capital of society according to fixed and unalterable laws into two parts: the wage-fund designed for laborers, and profits designed for capitalists. Society had done nothing to change conditions for it was impossible to contend against nature and the will of God. The only advisable thing to do consisted in pulling down any remaining barriers so as to allow for a freer play of natural forces.

Amasa Walker in the preface of his Science of Wealth said, "Although desirable that the instructor should be familiar with the subject himself, it is by no means indispensable. With a well-arranged textbook in the hands of both teacher and pupil, with suitable effort on the part of the former and attention on the part of the latter, the study may be profitably pursued. We have known many instances where this has been done in colleges and other institutions, highly to the satisfaction and advantage of all parties concerned."

Ely cited McCullough as saying in 1824, "But the errors with which political economy was formerly infested have now nearly disappeared; and a very few observations will suffice to show that it really admits of as much certainty in its conclusions as any science founded on fact and experiment can by any possibility do." R. T. Ely, Past and Present of Political Economy, pp. 18-19.

Ely also quoted Colonel Torrens as saying in the year 1821: "With respect to political economy, the period of controversy is passing away, and that of unanimity rapidly approaching. Twenty years hence there will scarcely exist a doubt respecting any of its fundamental principles." Ibid. pp. 18-19. Even John Stuart Mill wrote in his Principles of Political Economy: "Happily there is nothing in the laws of value which remain for the present or any future writer to clear up; the theory of the subject is complete; the only difficulty to be overcome is that of so stating it as to solve by anticipation the chief perplexities which occur in applying it." Ibid. pp. 18-19.

Even though Ely held these writers to be in essential error, he recognized that they had made a distinct contribution to economics. One error

appeared in trying to study economic phenomena entirely apart from law and other social institutions. The effort, however, was important because it at least demonstrated the very impossibility of achieving such a result. Another error arose in assuming simplicity of economic phenomena, but this very fact of error led to an investigation of their complexity. The complexity might have deterred people from studying these phenomena, if the difficulties had been fully realized.

The doctrines of the orthodox school were doomed to failure because the whole spirit of their practical activity was negative. This group had proved powerful to tear down but had contributed little that was constructive. It had assumed nature entirely apart from man's will. It was forced to give way to a school which would at least attempt a positive work of reconstruction. It fell in the face of increasing forces of dissatisfaction among larger and larger groups, especially the laboring classes, socialists, and humanitarians. Ely said of laissez-faire, laissez-passer--the cornerstone of orthodoxy--"It never held at any time in any country, and no man ever made a more complete fiasco when the attempt was seriously made to apply it in the state." He thought that the theory of full harmony of interests between the classes of society was at complete variance with facts. The only hope of reconciling these various classes was through a higher moral development. Self-sacrifice should play a greater part in business transactions, if society would achieve peace and goodwill on earth. Ideal economic life involved the union of self-interest and altruism in a broad humanitarian spirit. "All this proves that it is not individual self-interest, certainly not

individual selfishness but social considerations which are the first
and foremost factor in economic life in modern times."¹⁰

Out of the theory of relativity and evolution Ely believed social progress arose. The goal of perfection for this progress existed in Christianity which offered the highest conception for society in that it embraced all men, and set a goal toward which man could ever move. The fatherhood of God and the brotherhood of man furnished the expressions of this relationship. Human progress could not pass this goal for it satisfied the highest aspirations.

Some people supposed economics was a science of sharp practices, but man had within him an ethical feeling that resulted from intuition and historical experience, and that religion clarified. This feeling warned the individual that in business life, as in all other phases of human relationships, he should seek to promote the welfare of neighbors and brothers. It represented the best product of centuries and society could not disregard or pass over it lightly. Only in imperfect society did one find hard bargains and sharp practices; business especially should manifest ethical practices. Actually, according to Ely, a world-union of brothers was developing and that fact explained much of the uneasiness and concern over social conditions.

Sometimes economic causes might result in regress instead of progress. The invention of the cotton gin made the production of cotton more profitable and riveted slavery more firmly upon the South, although strong forces were operating to free the Negroes before the gin developed. Ely saw a chief cause for anxiety in the situation which made it more difficult for a large population to live peaceably together under present industrial conditions than for a small one. As long as a moral governor of the

universe existed, modern nations, like ancient ones, had to show their fitness to survive. A mighty force, seemingly almost irresistible, was at work day and night forcing upon society more and more serious social problems. Neither the policeman's club nor the soldier's bullet could ever solve these problems, for the quiet on-moving forces laughed such repression to scorn. Only that righteousness which enabled society to adjust itself to new environments could solve them.

Thinkers should allow neither blind optimism nor extreme pessimism to destroy or check social progress. As a general rule, those who found conditions favorable to themselves were optimistic, but those who found conditions unfavorable were pessimistic. Both optimists and pessimists existed in the same social class. No sane person would say that society has either reached perfection in social arrangements, or yet, that it has not taken long steps in the twentieth century in the direction of handling social and economic problems in the interests of general welfare. Many people considered society, which they saw about them, as something stable and unchanging, or, in many instances, something sacred. A stationary condition of society was something the world has never seen in the past or present. The natural law decreed either progress or decline. Social purpose like geological force swept majestically on over-riding all obstacles and shaping all institutions to its ends.

Man might hopefully expect progress in connection with such major social issues as tariff, labor problems, monopolies, and essential equality, but one should look for such progress in line with certain evolutionary principles. The student should view the tariff issue, for instance, historically, in order to understand the merits of the controversy in the

United States between the free-traders and protectionists. He should not expect legislation on the subject as if the nation was starting from the beginning and framing a new policy for a new land. In the historical growth of the present policy one saw the jobbery and corruption connected with tariff legislation and the hypocrisy it fostered. Because of these facts and because certain monopolies have hidden themselves behind tariffs as a safe bulwark, a citizen might wish to sweep the whole issue from the face of the earth. Mature reflection, however, would show the impracticability of such a view. Since the present grew out of the past, it also depended upon it. Sudden and radical changes might ruin important industrial factors.

There were only two rational tariffs: the retaliatory tariff which forced countries to lower or remove commercial restrictions and aimed to free trade rather than to protect it; and the tax-equalizing tariff which aimed to counterbalance excises or internal revenue taxes. Neither type would change the relations between home and foreign producers, and would not be classed strictly as protective tariffs. Any article placed on the free list was a clear social gain, because it removed one temptation of government by special interests. Society should make persistent effort to tax as few items as possible, for such a policy would reduce interference with trade and restrict the temptation of corruption.

With regard to the labor movement, society should recognize actual conditions, enact legislation to protect the interests of the whole wage-earning population, and prevent the abuse of power by both labor and management. The public should make clear to all that the so-called free and equal contract between labor and capital was a fiction. Organized labor was a normal condition, because association was so natural to man

and its benefits so great that civilization sought it more and more. The labor movement represented the efforts of men to live the richer and fuller life.¹² The end of true growth in mankind resulted in the full and harmonious development in each individual of all the human faculties--working, perceiving, knowing, loving. The social salvation of man came from below as the masses continuously moved forward in spite of resistance from the so-called better classes. But the learned of society should examine these mass movements because the upper ten thousand should sometimes exercise in the interests of all society a controlling and restraining power over popular movements.

One might correctly compare the labor movement to the rising tide, each wave advancing farther than the previous one. No permanent decline of the labor movement would occur. In the future, organized labor might be able to force arbitration to replace war in international settlements and compel the governments of the earth to abandon war and live in peace. Because of a felt necessity of uniting and acting in harmony for the accomplishment of common ends, organized labor might even eliminate the race problem between Whites and Blacks in the South. Arbitration was an impossibility without the organization of labor, since capital was organized and since the difficulties in the way of arbitration came mainly from the side of employers. The pride and arrogance of men who did not like to meet their employees on an equal footing became the chief obstacle to peaceful settlement of disputes between labor and capital.¹³

Ancient prejudice, violent partisanship and ignorance made up the main causes of opposition to labor organizations. As a rule, the despised trades-union leaders were more conservative than the mass of their followers.

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Ely, The Labor Movement in America, p. 54.

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Op. cit., p. 147.

Contrary to public belief these men always tried to hold organized labor in check instead of urging it on. They did not stir up many foolish strikes, which often came in spite of labor leader's efforts. If one wished to know both sides of the labor question he had to read a labor paper. Unscrupulous employers were guilty of every offense of which labor was accused; capitalists had led the way in violence of every type.

As to the outlook for trade unionism Ely concluded that a grave danger existed in the possibility that the demagogue might get control of the labor movement which possessed power either for good or evil. 'If Americans, who professed that Christian principles of ethics controlled them, would do their duty in times of social crises, they could prevent the control of demagogues. Mere attempts to suppress trade-unions would not suffice because an endeavor to crush them was the greatest danger of all. No power of the American employing class could stop labor organizations; they had come to stay, and only full recognition could bring industrial peace. Therefore, employers who really meant well, should seek to work through labor unions and develop all of the good that was in them. A fifth estate was arising and clamoring for emancipation.

The problem of production was well on the way to solution, but that of distribution remained. The Knights of Labor proposed to assist in the solution of distribution for the entire race. It was correct reasoning to conclude that if the Knights of Labor raised all on the lowest social stratum, they would also raise all other strata. In line with Christian ethics the strong of society should help to bear the infirmities of the weak. No grander conception of human brotherhood characterized any movement than that which the Knights of Labor professed.

In respect to monopolies Ely claimed that all who enjoyed monopoly privileges became a powerful privileged class. Franchises resulted in an

enormous non-competitive field, because their owners enjoyed opportunities denied to the rest of the community. Social progress demanded rigid control of all kinds of monopoly. Society should reduce privileges equal to those of the competitive field, and either abolish or so regulate private monopolies as to remove the privileged position of the monopolists.

Back of all reform lay Ely's goal of progress--the social ideal of equality of opportunity for all. He recognized individual differences among men, and insisted upon including the idea in his concept of equality of opportunity. Ely argued, however, that the eighteenth century idea of essential equality among men was pernicious, became a fruitful cause of misfortune, misdirected social effort, nourished false hopes, and turned attention away from important facts. Since men were unequal both in capacity and requirements, the feeble members of the community especially suffered under this doctrine. It also weakened the feeling of social responsibility.

Ely detected a world-wide movement in the direction of equality of opportunity with respect to property and income, but found sharp limitations in property, contract, inheritance, and vested rights. Society showed no inclination to consent to the abolition of these fundamental institutions, because it held the view that general loss and not gain would result therefrom. Short cut approaches to equality might result in a far lower plane of economic well-being than society enjoyed under the prevailing institutions.

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R. T. Ely, "Social Progress," Cosmopolitan, May, 1901, p. 62.

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"Inequalities in wealth are not only necessary, they are desirable at the same time inequalities in wealth-distribution when they pass a certain point are disastrous and in the end destructive to free government." Ibid. p. 63.

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Ely, Property and Contract, Vol. I, p. 411.

With Hly everything centered with the social welfare point of view. Everywhere progress resulted when the individual point of view lost in favor of the social view or when narrow self-interest gave way to the broader general welfare. Society had already reached a period in its development when self-conscious social action appeared to a considerable extent in at least five directions, namely, an increase in the mass of free goods; a restriction of the extent of private property and corresponding extension of public property, as in the case of slavery and public office; a development of the social side of private property; an extension of private property along certain lines; and a change in the modes of acquisition of private property. He did not recognize, however, any universal tendency to develop along any of these particular lines. Hly concluded that the scholar could not decide, without a careful examination of the different kinds of goods whether or not property in itself was a good thing or a bad thing. One should always make a distinction between free goods and economic goods, and should treat public and private property, neither as good nor bad without qualifications and limitations. If anyone claimed, without qualifications, that public property was good he would land at once in socialism; if he said, without limitation, that private property was good then the societies of the world should turn over all property to private persons. It was safe to say that no real government -
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could exist without property, because property was power.

The point of view of the historical school in opposition to the absolutism and individualism of the eighteenth century might push society too far in the direction of a fatalistic justification of the status quo. Each nation has learned much from the experience of other nations, since each country has copied the economic life and institutional patterns of

where. Progress would demand that the past should not forever bind and fetter society. When one considered the present with regard to the past, he might find stronger arguments for private property than otherwise, because it has belonged to thousands of years of human history and growth, and has fitted itself to our psychological natures. Any changes should consider the mental make-up of society. Both evil and good have flowed from a given institution, and, consequently, in making proper decisions one should weigh the evil against the good and consider the net balance to society as a whole. From this standpoint the proper view as to contract would also be the social welfare viewpoint, the same as for property. The rights of contract have been acquired in and of society. On the ground of human welfare they came from the state and developed in the state. Economic life would demand security and stability to guarantee continuity. To realize the truth of this statement one might simply think of some contract relations like barter, sale, credit, agency, professional services and corporations. In the absence of contract might would prevail in our economic relations. Very largely contract has led to the accumulation of wealth and has determined the shares of the national dividend. All of these considerations gave weight to Ely's social interpretation of property and contract and to his Institutional Economics. On the other hand many relationships like parentage, education, inheritance and the church have remained on the whole outside of contract, although they, too, have had their economic side. Contract never exhausted economic relations; the state, itself, has ever been the source of contract not the result.

With regard to general outlook, one might agree with Ely and expect society to make progress in the future. Intelligent persons, therefore, might work for social improvement, and endeavor to bring about changes

as beneficial as possible and reduce injury to a minimum. They might believe with Ely that the good would ultimately prevail in a movement toward perfection; they might condemn both undue optimism and unwarranted pessimism and agree with him on some general ideas of progress: (1) The final purpose of Christ and of the founders of our republic was peace at home and throughout the world, as well as the improvement of human relationships. (2) Although standards of business were deplorable in many cases, they were constantly rising toward the professional level. (3) General economic progress appeared in lowered costs, if there were correspondingly lowered prices. (4) Great good came to many as the result of progress, but even those who gained from progress often suffered temporarily. (5) Vital religion was a condition for social progress and without it there was little hope. Scientists for a time might neglect it but they would eventually re-establish it for enlightenment and strength. (6) Thorough, impartial, and scientific study of actual facts was a most striking need for progress. (7) No panacea or easy road to a happy condition existed either for individual or social ills. (8) Education both general and technical was an essential need for progress. (9) Society did not avoid difficulties through evolution, as illustrated by shifting from private property to public property or vice versa. Deliberate choices came in light of the greater good to the greater numbers. (10) The destructive forces of civilization developed from within and not from without. (11) Two basic viewpoints of reform stood out in contrast: one would destroy the present order and start over, and the other would begin with the present order and build upon it. The first was revolutionary while the second was evolutionary.

One might doubt the correct usage of the term evolution as used by Ely and other economists, although he did not doubt the fact of change in

society. The term evolution in the natural sciences seemed to mean the development of higher levels of life from lower levels over long periods of time, and through more or less well-recognized stages. In the natural sciences the time element reached far back of historic man, whereas in social changes writers have applied it to much shorter periods, sometimes not more than a century and at other times they have used the term to refer to changes that have occurred in one generation. In natural science the term evolution implied a starting point and a definite trend toward a goal. Frequently the term social evolution has been used to refer merely to social changes which have not been sudden enough to be classed as revolutionary.

In the business world one might more aptly refer to changes as cyclical or like the swing of a pendulum. Recent writers upon the subject of business fluctuations have spoken of weekly cycles, monthly cycles, seasonal cycles, three-year cycles, five-year cycles, ten-year cycles, major cycles and minor cycles. Roger Babson has made a fortune in forecasting business upon the principle that action is equal to reaction, a principle of physics applied in the economic realm. Mr. Babson did not attempt to prove that the law of mechanics would apply in business, he simply assumed that it would and proceeded to make his forecasts upon the assumption. The old maxim that history repeats itself, might come to mind. In the history of man nations have risen and fallen, if not regularly at least certainly. In the field of sociology one might think of the saying: "Shirt sleeves to shirt sleeves every third generation." In speaking of the social circulation of individuals in society, E. A. Ross said that the clump of the brogan going upon the stairway of success was matched by the squeak of the patent leather coming down. Morally speaking debate has long continued whether or not the world has grown better or worse. Again one

has heard the discussion whether the world has made progress or regression, whether western civilization has passed her zenith, whether democracy has gained strength, and whether business as a whole has yielded a profit or a loss.

With a long sweep of time one has seen the doctrine of individual responsibility and personal priesthood bring the Protestant Reformation and a multiplication of religious doctrines and sects. The doctrine of natural, inherent, and inalienable rights resulted in the American and French Revolutions, political democracy, popular education, and capitalism. The spirit of the Darwinian theory of survival of the fittest, applied in the field of science and politics, has led to an extreme type of nationalism with high protective tariffs, economic sanctions, and race hatreds, and has created powerful offensive military weapons so as to burden the present-day world with fear and insecurity. In the face of such individualism carried to its logical conclusions, the civilized world has faced as never before anarchy in government and the family, indifference and rationalism in religion, a low sense of honor in international and business dealings, the accumulation of huge unpaid national and international debts with no particular desire or will to pay them, huge military organizations calculated to strike terror among the enemy, an exploitation of natural resources, speculative manias, and ethics of expediency. The world has come to face political chaos, financial bankruptcy, lowered standards of living, private and national piracies, monopolistic exploitation, larger and more powerful pressure groups, and military and economic insecurity and instability. In the face of such individualistic forces one might discover social leanings in the opposite direction. The people of the earth might begin to talk and seriously experiment with empires, totalitarian states, collectivism, regimented democracy, and military conscription. One might see the individual taking a smaller and

smaller role and the societal interest taking the center of the social stage. There would be plenty of evidence of social change but whether or not society was really moving toward a goal, or merely moving in cycles would not be so clear.

Some social evolutionists have seen the family moving from promiscuity through such stages as communal marriage, group marriage, polygamy, to monogamy, while others studying the very same data of near-human animals saw the original family pattern to be that of monogamy, and society was evolving toward promiscuity through the various forms mentioned above. One group saw the jealous male dominant from the beginning while others found the mother dominant at first with the male gradually taking over the reigns of power because of woman's physical weakness in periods of pregnancy and child-bearing.

Ely glibly spoke of believing in social evolution, but he did not make entirely clear whether he used the term in keeping with the biologist or simply to refer to social change. He did not seem to go all the way with the logical followers of Darwin. The natural fruits of evolution has appeared to be a form of determinism--no use to want or strive for that which was contrary to the end result of evolution. Furthermore, evolution would seem to lead to that colossal conceit that man could completely control his own destiny by knowing all and doing all things. Although biological evolution referred to eons of time, each social evolutionist has seen in his own generation many glorious evidences of his theory, especially in the particular direction in which he happened to be interested. Ely was neither a determinist, nor a religious skeptic; he did not believe that man was a complete master of his own destiny.

A dangerous attitude of some so-called scientists has been that they were too ready to apply and share wisdom in every other field, and

particularly in the realm of the social sciences. If an automobile manufacturer made a half-billion American dollars he readily expressed definite opinions upon religion, international banking and finance, national politics, and educational systems. He knew how to end war, to solve race problems, to operate railways; he knew what was worth while in art and music. If a successful inventor succeeded in catching the lightning from the sky and safely placed it in homes and factories, immediately lesser-minded men heard him in open-mouthed wonder upon any subject of wisdom that he chose to elucidate. This attitude has been just as unscientific as that of one who mixed up religion and science. The student of Ely's many reform ideas might readily feel that he undertook to give advice upon far too many subjects of a social and educational nature.

With all of the knowledge of science, including evolution and behavioristic psychology many social problems like crime, poverty, unemployment, race hatreds, divorce, political corruption, war, economic instability and exploitation have remained. Such a remark would not discredit true science in any sense, because all fields of knowledge have thrown valuable light upon every human problem, but the perfect stage of man has come no more surely under science than when guided by religion, in spite of predictions to the contrary by Ingersoll, Ward, Whitman and a host of others. Ely seemed to sense this fact when he asserted that men have over-specialized both in preparation and in operation. It has not been very becoming for men in one field of knowledge to try to supplant others. A great social need has continued for the leaders in all fields of endeavor to cooperate and work together for the increased well-being of society. If it were possible and desirable for pure science to be separated from art, then society should develop somewhere and somehow

~~some~~ artists who understood science and who could apply it so as to lead society out of the dark into the light.

Chapter VIII

Value and Distribution

Ely's basic approach to value was Austrian, in that he held value - to be in the mind of the buyer, and not in costs expended, or in labor bestowed; yet, he recognized that, in the long run, costs set a limit - upon the supply of goods which would come into the market. He defined value as the "power of a good to excite desire, a capacity which is measured by the greatest unsatisfied want which the good in question is able to satisfy. Thus the value of a commodity is not something inherent in the good itself, but something attributed to it by human desire. If desires change, values change, even when goods remain the same." Value was a fluctuating fact because people not only put different values upon things at different times but different people also put different values upon things at the same time. It was a fact that trees which no man had ever touched were worth hundreds of dollars; some land was valuable although men had never set foot upon it. On the other hand men have worked for months and even years on pictures that no one would buy. They certainly had cost labor. Labor, therefore, never gave value to products, but the "value of products determines how much labor men will put into them. When they miscalculate the value of the product, the labor is simply wasted." Here, as always in economics, Ely sought his explanation for fundamental facts of the science in man and not in things. If man desired a thing, it had value, no matter whether it cost anything or not, and, if he did not desire it, it had no value, no matter how much it cost.

¹ R. T. Ely, Outlines of Economics, New York, Hunt and Eaton, First Edition, 1894, p. 127.

² Op. cit., p. 122.

Ely distinguished sharply between utility and value. The former was the power to satisfy a human want, the latter was based on utility plus scarcity. Utility was not a "physical or immutable quality of things," nor the "power to confer benefits,"³ but a psychological factor, a quality like color which was attributed to things but existed only in one's self. It could be anything except human beings, and was the quality which made a thing good. Economic goods were usually and regularly obtained by man only by exertion; they would also command other goods in exchange. The intensity of all satisfied wants measured the total utility of a commodity, but the value of a commodity was the degree of the want which the existing supply of the commodity still left unsatisfied.⁴ Man could secure more of any one economic good only by contenting himself with less of other goods. It was scarcity as compared with the human wants which they had the power to satisfy, and not the fact that they cost labor, that made them economic goods.⁵ Free goods existed in sufficient quantities to satisfy all wants for them, and, consequently, free goods were no concern of economics, the science of wealth-getting and wealth-using.

Ely defined wealth in terms of economic goods consisting of "those things and rights which are limited in supply, exchangeable, and capable directly or indirectly of satisfying human wants."⁶ In this connection he asserted that wealth as commonly used in popular speech, law, and accounting, covered both economic goods and property rights, which had an exchange value, provided there was no double counting. In certain obvious cases like wheat and the warehouse receipt for it there was no occasion for double counting. In other cases like the issuing of government bonds and

³ Ely, Outlines of Economics, Fifth Edition, New York, Macmillan, 1930, p. 92.

⁴ Op. cit., pp. 124-5.

⁵ Op. cit., pp. 92-3.

⁶ Op. cit., pp. 94.

paper money the double counting could be avoided if there was proper recognition of positive and negative wealth. To the creditor a thousand dollar government bond was positive wealth but to the debtor it was negative wealth. If both phases of the relationship were recognised there would be such a cancelling out as to avoid duplication. If the bundle of rights represented by an economic good were wisely divided it could increase utility, if unwisely divided it would decrease utility. Since property rights could be productive of utility, therefore, such instruments should be counted as wealth. Ely cautioned that wealth did not necessarily measure material welfare, since there were debased and perverted wants. Growing scarcity could also increase wealth. "Wealth is an aggregate of economic goods Economic well-being is an aggregate of utilities; that is, of satisfied wants, not an aggregate of values."⁷

Production consists in the creation of utilities. Technically man creates nothing new. Neither the farmer nor the merchant adds one atom to the existing materials of the earth, yet, in economics, both are properly called producers because they increase economic utility. Man arranges things in a more satisfying form, at a more propitious time, or in a more convenient place. Any one of these services, or any combination of them, becomes economic production. "In a literal sense", declared Ely, "neither utility nor value is produced. The things produced are goods and services which possess utility and value because they satisfy human⁸ wants that would otherwise be unsatisfied." Any one product might be pushed so far as to become a nuisance like rabbits in Australia. The purpose of production is consumption; man is not simply an agent by whom goods are produced, but he is the one for whom the goods are produced.

⁷ Ely, Outlines of Economics, First Edition, p. 125.

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Ely, Outlines of Economics, Fifth Edition, p. 111.

Man can produce by applying his mental and physical powers to the physical universe which furnishes the materials and forces. Because of man's insatiable wants there is no such thing as general over-production, but man can misdirect his labors so as to throw production out of balance. If more and more labor were devoted to the production of cotton until all wants for it were supplied, it would become a free good. Value would fall lower until the last want for cotton was satisfied; at the point it became a free good all value would disappear and labor devoted to the production of cotton would cease to be productive because there would be no utility in additional units. Such a case would illustrate the unwise use of productive energy, for, while trivial wants for cotton were being satisfied, other important wants, as for wheat, would be sacrificed.

The practical measure of exchange value is market price--the amount of money that is given for one unit of a commodity. In market price Ely recognized the following important factors: competition, monopoly, custom, and public authority.

Each individual took part in the competitive contest in two ways: first, as a seller of goods or services, he found that other people were anxious to render the same services and to offer the same goods or substitutes for them; second, as a buyer of things which he desired, he found that others also wanted the same commodities, and services as he. The intensity of the competitive struggle was subject to great variation. The state set limits to the rivalry, acted as an umpire for fair play, and eliminated fraud and brute force. Competition that was designed to drive out of business was illegal, whatever its methods, if it was prompted by sheer malice or was a part of an effort to establish a monopoly.

Under competitive conditions market price was determined by supply - and demand, with demand having the greater influence over short periods of time and supply exerting its influence over long periods of time in what Ely called normal price. From the demand side the most basic - principle was marginal utility and the law of diminishing utility. Ely formally stated the law of diminishing utility as follows: "The intensity of our desires for additional units of a commodity decreases as we acquire successive units."¹⁰ The value per unit decreased as the total utility increased, because each new portion added less utility than the previous one, and it was the utility of the last one added that determined the value of each. For example, low-grade wheat, if the crop were extremely poor, might be worth twice as much per bushel -- even more in the aggregate -- than a large crop of fine quality. This explained why early merchants found it profitable to destroy half of their ship loads of spices in order to get more for what was left than for all of it, or why, under conditions of a large catch of fish, it paid to sell a portion for fertilizer rather than to sell all on the food market. "By and large," said Ely, "value product is a truer measure of social welfare than physical product, not only under a monetary or pecuniary economy but under any other economy which employs cooperation and division of labor. The law of diminishing utility is a reality, not a theoretical plaything, and is independent of money and of the system of private production."¹¹ He defined marginal utility as the "final or marginal unit of a person's stock of a given commodity."¹² The intensity of the want dependent for

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Op. cit., p. 130.

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Op. cit., p. 113.

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Op. cit., p. 131.

its satisfaction upon the possession of one unit of a commodity determined the marginal utility.¹³ Each individual in addition to weighing in his mind the desirability of adding another unit of a particular good, therefore, had in his mind a subjective value -- "that person's estimate of the importance of possessing that good as compared with the importance of possessing other goods."¹⁴ The schedule of quantities of a particular good that an individual would take in a given market at a given time made up his demand for that good. When the schedules of all the individuals in a given market were combined into a single schedule and plotted into a curve, this curve represented graphically the demand in the market, and represented the different amounts of a given commodity that buyers would take at each of all possible prices in the market. The supply in a given market at a given time referred to the amount of goods available for the market. This amount was determined both by past estimates of present conditions and by present estimates of future conditions. Every seller had the option of selling at the present price or of waiting for the possibility of higher future prices. This option of course was limited by the perishability of the good and the urgency of a seller's need for money. By finding the schedule of quantities that all the prospective sellers combined would offer in the market at a given time at all prices, a supply curve could be determined which would be similar to that of

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In the first edition of Ely's Outlines of Economics he defined marginal utility so as to depend not upon the last satisfied want but upon the next unsatisfied want. He said: "It seems that we produce regularly for unsatisfied wants, and especially is this the case in a dynamic society with increasing production. Of course if we are asked to part with a portion of existing supply which we intended to use to satisfy our wants, the value will depend upon the least important want which that portion could satisfy When we consider small increments the last satisfied and the first unsatisfied want differ but little. R. T. Ely, Outlines of Economics, First Edition, p. 125.

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R. T. Ely, Outlines of Economics, Fifth Edition, p. 135.

demand. Since the sellers would offer greater quantities on the market as the price rose a normal supply curve would slope upward to the right, and since the demanders would take the smaller quantities as price rose a normal demand curve would slope downward to the right. If both curves were plotted on the same chart the point of intersection represented market price -- a point at which the quantities offered and the quantities taken would be equal. This would be market price.

Over long periods of time the cost curve and the supply curve tended to become the same. The relationship between the cost curve and demand curve demonstrated normal price in a similar fashion as that of the demand and supply curves, for market price. As to costs the predominant influence was exerted by the marginal producers, "meaning by that term these producers who will withdraw from production or materially reduce their production unless prices in the long run are high enough to cover their expenses of production including minimum or necessary profits."¹⁵ Ely pointed out that "market price constantly tends to approach the normal price, which is defined as the expense of producing a unit of the commodity in question."¹⁶ Although market price constantly tended to approach normal price it might easily happen that the two never exactly coincided. The forces which tend to bring market price into line with normal price operate slowly and seldom work with nice precision. "Normal price is something like a moving naval target floating on a choppy sea, bobbing up and down, and perhaps moving steadily in a particular direction in obedience to some major current such as the Gulf Stream.... It is impossible to locate with precision the exact position of the target at any time. None the less it is highly important to know that there is

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Op. cit. p. 185.

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Op. cit. p. 185.

a target whose approximate position can be determined."¹⁷ The following major factors affected normal price: (1) changes of population which generally increased as time passed, (2) monetary disturbances, (3) wages and salaries which have in the past shown a tendency to increase (both money and real), and (4) relative marketing expenses which have also shown a tendency to increase.

Demand and supply did not always fix price at a definite point, but left room for bargaining, as was well illustrated in trading for a piece of real estate. The demander was always trading for a buyer's surplus, and the seller for a seller's surplus. The demander always had in mind a maximum price above which he would not pay. He would bid as much below this maximum point as he might hope to get the good, and the difference between what he actually paid and what he would have paid rather than to have done without the product represented buyer's surplus for him. Likewise the seller had a minimum price below which he would not sell. The difference between this minimum, below which he would keep the product for himself, and what he actually got for his product was seller's surplus. Normal trades or exchanges took place between this maximum of the buyer and minimum of the seller leaving a profit for each. In this connection Ely laid down the following generalization: "In general, the wider the market, the more general the use of the commodity, the greater the ease with which the commodity can be sorted into standard grades (as in the case of wheat and cotton), the more accurately will competitive forces fix a definite price. Goods which cannot be standardized, each unit of which possesses some unique qualities, give most scope for the variations in the valuations of individual buyers and sellers."¹⁸ In such

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Op. cit., pp. 189-90

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Op. cit., p. 209.

cases supply and demand did not fix a price point, but only certain limits within which the price had to fall.

Along with competitive forces, Ely also recognized monopoly as a factor in fixing prices. In the case of a monopoly the price was fixed at that point which brought in the largest net returns to the monopolist. "In the main," declared Ely, "we live today under a regime in which competition has shifted by the differentiation of products and sales effort, away from price. The average producer today dreads the acid test of exact price comparison. He multiplies styles, grades, brands, and terms."¹⁹ But on the other hand he thought that monopoly was more apparent than real. Underneath the surface the old law of supply and demand exercised as much control as in the past, if not with so much precision, with as much power. He felt there had been a growth of real competition. The largest average expenditures were for food. Competition between the chain stores and packers was genuine and effective. Rent, the second largest expenditure, was paid in a field where there was little or not monopoly. There was obviously keen competition in the supplying of clothing, automobiles, gasoline, tobacco, amusements, education, and travel facilities. It was only in the case of electric power, gas, telephone, water and street-car services that the average consumer was conscious of monopoly, and, as a rule, the government regulated the prices of these services. Competition was just as powerful as ever, but worked itself out through substitutes, supplementary services, and better terms of payment. Monopoly was probably less widespread and important than it was in the last quarter of the nineteenth century.²⁰

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Op. cit., p. 216.

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Op. cit., pp. 216-18.

In the first edition of Ely's Outlines of Economics, which appeared in the year 1894, he had little to say about costs as related to value, except that "It is the value of the product which gives value to all that goes into the product, and men will go on producing so long as the product has a value which will give them as high a return for their expenditures as they could otherwise obtain; in other words, their action in seeking to use advantageously their economic forces, whatever they may be, will bring about an equilibrium between costs of production and value."²¹ He illustrated by saying concerning gold and silver mines: "All mines on or above the margin will be worked; all below it will be unworked; but it is the value which determines the margin, and not the cost of production which determines the value. There is at the same time a coincidence between costs and value at the margin."²² In each new edition of the Outlines of Economics, Ely had more to say about costs as they affected normal price. In his fifth edition of 1930, he said, "The price or value of a good is dependent upon (i.e. influenced by) the costs and expenses involved in producing or acquiring it. 'The backbone of the science of economics is the balancing of value against cost,' as Professor J. M. Clark has cogently said. These costs are subjective and objective, and in a general way correspond to utility, subjective value, exchange value, and price."²³

These points explained above indicate that Ely understood the marginal utility approach to value as presented by the Austrian School, and at the same time understood the relationships of costs to price as explained by the classical economists, although we do not find him wrestling with joint

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Ely, Outlines of Economics, First Edition, p. 136.

²²

Ibid. 136.

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Ely, Outlines of Economics, Fifth Edition, pp. 169-70.

costs, decreasing costs, constant costs, and increasing costs in any manner comparable to Alfred Marshall, his great English contemporary. But it is well to remember that he was trained in the Historical School and claimed to be a pioneer in Institutional Economics. No treatment of value and price was complete with Ely without a thorough explanation of bargaining. It was in this connection that Ely's emphasis upon contracts and public authority became so significant.

Reasonable or fair value was not possible except between buyers — and sellers of equal bargaining power at the time when their contracts were consummated. It often so happened that the parties to economic contract were in such unequal social positions as to get no resemblance of freedom or justice, as was illustrated in the case of unorganized labor, immigrants, and Negroes. To illustrate such one-sided contracts, Ely gave the following contract form between a planter of South Carolina and his Negro tenant.

I agree at all times to be subject to the orders and commands of said _____ or his agents, perform all work required of me _____ or his agents shall have the right to use such force as he or his agents may deem necessary to compel me to remain on his farm and to perform good and satisfactory services. He shall have the right to lock me up for safekeeping, work me under the rules and regulations of his farm, and if I should leave his farm or run away he shall have the right to offer and pay a reward of not exceeding \$25 for my capture and return, together with the expenses of same, which amount so advanced, together with the expenses of same, which amount so advanced, together with any other indebtedness, I may owe _____ at the expiration of above time, I agree to work out under all rules and regulations of this contract at the same wages as above, commencing _____ and ending _____.

The said _____ shall have the right to transfer his interest in this contract to any other party, and I agree to continue work for said assignee same as the original party of the first part.²⁴

The following baseball contract also illustrates the same idea but from a slightly different situation:

²⁴ Ely, Property and Contract, Vol. II, pp. 716-7.

The compensation of the party of the second part stipulated in this contract shall be apportioned as follows: Seventy-five per cent. thereof for services rendered and twenty-five per cent. thereof for and in consideration of the player's covenant to sanction and abide by his reservation by the party of the second part for the season of _____ (the next year), unless released before its termination....

It is further understood and agreed that the party of the first part (the club) may at any time after the beginning and prior to the completion of the period of this contract give the party of the second part (the players) ten days' notice to end and determine all its liabilities and obligations under this contract, in which event all liabilities and obligations undertaken by said party of the first part, in this contract, shall at once cease and determine at the expiration of said ten days; the party of the second part shall thereupon be also freed and discharged from obligation to render service to said party of the first part.²⁵

If the state through its courts or other institutions enforced contracts of the nature of the above illustrations between parties of economic or social status in society, it not only fostered rank injustice, but also helped in a large measure to determine wages, interest rates, and commodity prices, whatsoever might be involved. Contracts negotiated by people of an unequal social standing do not represent a true picture of defensible value and price.

When certain social institutions as property and contract take on such exaggerated inequalities in bargaining, and when the state enforces such contracts on the assumption of equals to the contract, there is no sound theory of value left. In this connection Ely turned to Institutional Economics and asked the state to step in with social legislation and take the side of the weak as in the case of workmen's compensation acts, minimum wage laws, and the outlawing of peonage contracts, slavery, and indentured servants. In this connection Ely was in agreement with Sidney Webb that, "It is a sound principle of universal law established by the wisdom of more than two thousand years that where in the necessary

imperfection of human affairs the parties to a contract or dealing do not stand on an equal footing, but one has an undue power to oppress or mislead the other, law should step in to succor the weak party."²⁶

In connection with his defense of a minority opinion of the Supreme Court of the United States in the Bakers' Case, Ely presents a good illustration of his Institutional approach to economics. At the same time he explains the effects of contracts between unequals upon value.²⁷ This case considered the constitutionality of the ten-hour law passed by the New York state legislature to prohibit bakers from working excessively long hours. The bill provided that no employees should be required or permitted to work in the biscuit, bread, or cake bakeries more than sixty hours in one week or more than ten hours in any one day, unless, to make Saturday a half holiday, they wanted to work longer on the previous five days. They could not, for example, work eighteen hours a day for three days and not work at all on the other three days. The law also set standards as to furniture, utensils, wash-rooms, water-closets, etc., apart from the bake-room; for instance, no person was allowed to sleep in the bake-rooms. This law was sustained by the County Court of Oneida County, by the New York Superior Court, and by the Court of Appeals of New York state. It was reversed by the United States Supreme Court by a decision of five to four on April 17, 1905. The opinion was delivered by Mr. Justice Peckham and concurred in by four other judges. A dissenting opinion was given by Mr. Justice Harlan, and a more radically dissenting opinion by Mr. Justice Holmes. It was mainly with Mr. Justice Holmes that Ely agreed.

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Sidney and Beatrice Webb, Industrial Democracy, London, Longmans, 1897, Vol. I, p. 251.

27

Ely, Property and Contract, Vol. II, pp. 651-77.

As to the majority opinion Ely thought that no consideration was given to economic forces.²⁸ The argument ran that, since no physical force had been used by the employers to make the bakers' work, the contract was voluntary. Since the law was mandatory and there was no provision for emergency to permit workers, who wanted to work more than ten hours, therefore, the law infringed upon personal liberty. The employees might want to earn the extra money but would not be allowed to do so. Mr. Justice Peckham said: "It is a question of which of two powers or rights shall prevail -- the power of the State to legislate or the right of the individual to liberty of person and freedom of contract. The mere assertion that the subject relates though but in a remote degree to the public health does not necessarily render the enactment valid There must be more than the mere fact of the possible existence of some small amount of unhealthiness to warrant legislative interference with liberty."²⁹

Here Ely pointed out that the employers had organized and paid out money to fight the passage of the bill, and that after the bill had been enacted the same employers were trying to set the measure aside through the courts. On the other hand the employees had organized along with their friends in order to get the bill made into a law, and were fighting to be allowed to work under its protection, the Supreme Court decided the case against the workers and for the employers but upon the plea of freedom of contract and individual liberty of the workers. The court pretended that its consideration in the case was not for the employers but for the employees.

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R. T. Ely, Property and Contract, Vol. II, p. 663.

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Op. cit., p. 664.

Mr. Justice Peckham recognized the state's police power which he said operated vaguely in the interests of health, safety, morals, and general welfare, but it did not apply in the case of the bakers. The main issue as to police power was, according to the majority opinion, "Is this a fair, reasonable and appropriate exercise of the police power of the State, or is it an unreasonable, unnecessary and arbitrary interference with the right of the individual to his personal liberty or to enter into those contracts in relation to labor which may seem to him appropriate or necessary for the support of himself and his family?"³⁰

Mr. Justice Peckham then answered: "Statutes of the nature of that under review, limiting the hours in which grown and intelligent men may labor to earn their living, are mere meddlesome interferences with the rights of the individual, and they are not saved from condemnation by the claim that they are passed in the exercise of the police power and upon the subject of the health of the individual whose rights are interfered with, unless there be some fair ground, reasonable in and of itself, to say that there is material danger to the public health or to the health of the employees, if the hours of labor are not curtailed."³¹

Ely declared that this legal decision of the court even "expressed impatience with the different social philosophy which underlay the law declared unconstitutional,"³² and that it was in sympathy with Herbert Spencer's philosophy of extreme individualism and doctrine of the survival of the fittest.

Mr. Justice Harlan, in his dissenting opinion, said with regard to police power of the state: "All the cases agree that this power extends

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Op. cit., pp. 666-7.

³¹

Ibid. p. 667.

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Op. cit., p. 668.

at least to the protection of the lives, the health and the safety of the public against the injurious exercise by any citizen of his own rights.

But "the State in the exercise of its powers may not unduly interfere with the rights of the citizen to enter into contracts that may be necessary and essential in the enjoyment of the inherent rights belonging to every-
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 one," for there was a liberty of contract which could not be violated even under the sanction of direct legislation. It should be a clear case to justify interference by the courts with individual liberty. However, he was of the opinion that the bakers were at a disadvantage in the labor contract with their employers because of the dangerous and injurious conditions of the industry. The statute had its origin in the belief that the laborers and employers were not upon an equal footing in these contracts, and that necessity on the part of the employees often compelled them to accept unfavorable terms. In general more than sixty hours per week under bakery conditions might be injurious to the health of an average worker. It might be a wise piece of legislation but it was not the province of the court to decide upon the wisdom of the law. In Mr. Justice Harlan's opinion the statute did not embrace extreme or exceptional cases. This Justice felt that care should be exercised not to limit unduly the police power of the state as shown in the following statement: "A decision that the New York statute is void under the Fourteenth Amendment will, in my opinion, involve consequences of a far-reaching and mischievous character; for such a decision would seriously cripple the inherent power of the States to care for the lives, health, and well-being of their citizens. Those are matters which can be best controlled by the States. The preservation of the just powers of the States

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Op. cit., p. 668.

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Ibid. p. 668.

is quite as vital as the preservation of the powers of the General Govern-
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 ment." He was reluctant to set aside the statute, because he felt that
 there should be a clear case before the Court took from the State the right
 to protect the life of its citizens. He felt that the bakers were at such
 a disadvantage as to justify interference with their liberty and ended his
 opinion thus:

"We are reminded by counsel that it is the solemn duty of the
 courts in cases before them to guard the constitutional rights of
 citizens against merely arbitrary power. That is unquestionably
 true. But it is equally true--indeed, the public interests im-
 peratively demand--that legislative enactments should be recog-
 nized and enforced by the courts as embodying the will of the
 people, unless they are plainly and palpably beyond all question
 in violation of the fundamental law of the Constitution."³⁶

But it was Mr. Justice Holmes with whom Ely agreed most heartily.

Mr. Justice Holmes said in his opinion: "This case is decided upon an
 economic theory which a large part of the country does not entertain."³⁷

The Constitution of the United States was not intended to embody any
 particular economic theory, either of laissez faire or paternalism, al-
 though the majority opinion was an embodiment of the former doctrine.

The Constitution was made for people of fundamentally differing views,
 and judges should not render decisions against statutes that happened not
 to conform with their own particular views. Mr. Justice Holmes made a
 plea as did Mr. Justice Harlan for a broad view of police powers, showing
 that police powers already interfered with liberty of contract in a
 variety of ways such as Sunday laws, usury laws, prohibition of lotteries,
 and school tax laws. Mr. Justice Holmes had this to say about liberty in
 his opinion: "The word liberty in the Fourteenth Amendment is perverted

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^{Op. cit.}, p. 671.

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^{Op. cit.}, p. 672.

³⁷

Ibid. p. 672.

when it is held to prevent the natural outcome of a dominant opinion, unless it can be said that a rational and fair man necessarily would admit that the statute proposed would infringe fundamental principles as they have been understood by the traditions of our people and our law....It does not need research to show that no such sweeping condemnation can be passed upon the statute before us. A reasonable man might think it a proper measure on the score of health. Men whom I certainly could not pronounce unreasonable would uphold it as a first installment of a general regulation of the hours of work."³⁸

In commenting upon this decision Ely observed that many people, including some judges, felt that the courts were carrying their powers to extremes. It was a clear case to him that the bakers were a peculiarly oppressed class, often foreigners, and unable to take care of themselves. Often they were forced even to sleep in the bake-rooms. ~~Altogether~~ they were an unhealthy class of workers and were short-lived. The bakers were without liberty in the true sense for they were without the right to health. The statute represented their struggle for liberty and freedom from restraint and oppression. "And this liberty sought for the bakers was a liberty positive, constructive, and substantial, liberty for them to employ their powers, liberty to improve their faculties, a liberty which they had never known but which they sought because of its very positiveness. And the liberty which the courts gave them was no-³⁹ thing that they desired or which their friends desired for them."

Ely's thesis was that the judges' interpretation embodied a certain unsound economic philosophy. It was true that Congress had no right to

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Op. cit., p. 674.

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Op. cit., p. 675.

impair liberty, and properly so. Congress had no right to deny to the individual certain rights regarded as fundamentally natural, but interpretation was something which changed as economic philosophy changed.

Somebody had to interpret the Constitution. Ely thought the legislature — which was in close contact with the people should interpret the liberty of the people rather than the court which was so far away from the people. He thought that this was a tremendously important question. Those who believed in democracy might properly feel that the legislatures were the agencies for making interpretation, but if the courts were to be allowed to make them, then judges should have some education in reference to the work. They should not only know the law but also modern economic philosophy. Ely felt that instead of having any adequate training in — economic philosophy the courts had absorbed an antiquated philosophy of extreme individualism as set forth by Blackstone. In fact, this philo- — sophy was "far more extreme in its individualism than Adam Smith's

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Wealth of Nations."

To summarize Ely's viewpoint in connection with contract as demonstrated by the Baker's Case, he felt there could be little doubt as to the facts concerning the impairment of liberty under individualistic contract. "No workmen desire long hours and payments in kind: the claim 41 that they desire this is either sophistry or claptrap." To him it was especially irritating that the judges claimed to be carrying out the wishes and desires of the wage-earning class when they were really carrying out the schemes of the big firms who put up the money to defeat the laws. As to the argument that the regulation of contract deprived persons of the

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Op. cit., p. 676.

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Op. cit., p. 651.

opportunity to work, Ely felt that it merely prohibited them from being continuously employed in the same service more than a certain number of hours per day or week, a principle clearly within the power of the legislature. Furthermore, such limitation promoted health and increased the total capacity for labor. Such a law not only did not take away the right to work but increased the right to work because any law that promoted health and preserved strength increased total capacity for work. This was the true purpose of the laws. Some said to deprive working people of the right to work deprived them of their property because labor was their property and contract was one of the incidents of it. "It must be recognized," declared Ely, "that there is a coercion of economic forces. We have here again the problem of the twentieth man, -- one man yielding and forcing the others to yield, so that the only way the nineteen men can be protected is to compel the twentieth man." He pointed out that the courts had in some cases recognized the coercion of economic forces, and quoted from a decision of the United States Supreme Court: "The carrier and his customer do not stand on a footing of equality. The latter is only one individual of a million. He cannot afford to higggle or stand out and seek redress in the courts. His business will not admit of such a course. He prefers, rather, to accept any bill of lading or sign any paper the carrier presents, often indeed without knowing what the one or the other contains." Ely felt that "especially in labor contracts, the coercion of economic forces" had not been properly recognized by the courts.

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Op. cit., pp. 654-5.

43

Ibid. p. 655.

44

Ibid. p. 655.

Ely's most valuable contribution to value theory is found perhaps in this institutional approach and insistence upon the court's recognition of the exercise of economic forces which made necessary state intervention on the side of the weak. He made value an attribute of property. "In property," said Ely, "we have to do with economic goods, and economic goods are goods which have value, and value implies two things, -- utility and scarcity. In law, contracts read 'for value received.' If there were no value in a thing there would be no inducement to appropriate it. And thus regularly and normally one of the attributes of property is value. Property exists in things which men desire and which are so scarce that they are incapable of satisfying fully human wants, and people are willing to give laborious exertion in return for them." Property implied the assent of the state, but the "seat of authority is private property." Authority was "chiefly economic and not political and public. This is something which is being continually overlooked in theoretical and practical discussions. But, on the other hand, property, as a fully developed institution, has its foundation in government; and by a round-about and indirect way we come back to the state...."

Closely related to value and price the social institutions also played a large part in functional distribution, because interest, rent, wages, and profits were in many relationships determined by competition, monopoly, custom, and public authority just as were other prices.

⁴⁵ Op. cit., Vol. I, p. 132.

⁴⁶ Ibid. p. 133.

⁴⁷ Ibid. p. 133.

In the first edition of his Outlines of Economics, published in 1894, Ely was essentially Ricardian in his explanation of rent. He showed that under conditions of free land there would be no rent so long as only one grade of land was cultivated, but, as the growth of population required the cultivation of poorer grades of land, rent arose on the better grades and was measured by the difference in productivity of the different grades of land utilized starting from marginal land. When all land was being utilized in the production of a commodity and there was no free land left Ely arrived at the conclusion that "rent would absorb more and more of the product, until, with the disappearance of free land,⁴⁸ the entire product would be consumed as rent." Under conditions of intensive cultivation he recognized the law of diminishing returns: "Each addition of labor (or capital) in the cultivation of land increases the return, but not in the same proportion."⁴⁹ He spoke of the law of diminishing returns as "one of the most stern-visaged laws in economics, which indicates that, other things being equal, each addition to the number of human beings on the earth, beyond a certain number at least, makes⁵⁰ harder the process by which man draws his sustenance from the earth." He further observed that "all improvements in the methods of agriculture increase the product more than they increase the cost. The population can thus live on less land, and poorer land is thrown out of cultivation, as to-day in our New England States. Thus the margin of cultivation is raised and rent decreases. As a matter of fact, however, in old countries this is only a temporary result. The population is sure to increase and this usually at so rapid a rate as to keep pace with improvements. Not only

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Ely, Outlines of Economics, First Edition, P. 175.

49

Ibid. p. 176.

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Ibid. p. 177.

does the margin of cultivation not rise, but it may actually fall, because, with better knowledge and methods, poorer land will repay cultivation and the additional cultivators are sure to be forthcoming.⁵¹ He said the power of rent to make laborers work for an ever smaller return was due not chiefly to nature, but rather to the institution of private property. When land was all taken, rent was "limited by the law of wages only, and if the improvement here is less than in methods of cultivation, ...the landowner may not only have larger product, but a larger percentage of the product."⁵²

In regard to the relationship of rent and value he said: "Rent has no influence whatever on the value of products, although a large part of this value goes to the landowner... Value is due to unsatisfied wants or desires. It is human desires which, becoming more numerous and more clamorous, force cultivation down to poorer and poorer lands... Thus, the extent of cultivation measures the strength of human desire in this line and determines value. When desire makes wheat valuable enough to pay for cultivating this poor land it will be cultivated, not before; but it is desire, not the cultivation, which gives wheat its value. The fact that some land produces wheat easily and pays a large rent to its owner has no effect on value. Men cannot be expected to sell wheat below the price fixed by human desires just because they got it easily, and if they did the millers would simply add the difference to their profits."⁵³

In the later editions of his Outlines of Economics, (the fifth, for instance, published in 1830), Ely took a more critical attitude toward Ricardo's explanation of rent. He found that Ricardo's basic assumptions

⁵¹

Ibid. p. 177.

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Ibid. p. 178.

⁵³

Ibid. p. 178.

was not altogether adequate: first, that nature supplied land in strictly limited quantities, and, second, that population regularly and normally exercised a pressure upon the means of subsistence. "If the quantity of land is very limited and far below what man needs, and if the fertility of mankind is such that it leads to an excessive demand for what land can produce, then the rent of land must continually increase, and the landowner must necessarily enjoy an especially privileged position."⁵⁴

He found that society now has a surplus of food products and an overabundance of land as well as a retardation of population growth. He said, "the income derived from land depends, to a great extent, on what has been put into the land, so that the tendency is now to regard land, in the economic sense, as largely produced and as one kind of capital."⁵⁵ With him it was no longer a question of the physical supply of land but the economic supply of land. Ricardo's explanation was a better explanation of agricultural rent than for urban rent according to Ely. He illustrated this point by showing that in the development of salable lots in the subdivision at Radburn, Bergen County, New Jersey, the cost of the bare land was six cents per square foot or \$240 per lot of four thousand square feet. When the streets, parks, grading, landscaping, and utilities were completely installed and overhead costs were added each lot cost fifty cents per square foot or two thousand dollars per lot of four thousand square feet.⁵⁶ He spoke of such developmental costs as "ripening costs." These costs of changing land from one use to another gave man a considerable share in its utility and made land much more like capital. He still

⁵⁴Ely, Outlines of Economics, Fifth Edition, p. 443.⁵⁵Ibid. p. 144.⁵⁶Op. cit. p. 447-8.

recognized that costs did not directly determine value, "but they limit supply and thus indirectly affect value."⁵⁷ He also found that the "margin of cultivation has gone up rather than down,"⁵⁸ because of technological advances and the slowing down of the rate of population growth. Instead of gaining in increments of land values farmers have suffered enormous decrements.

With regard to wages Ely considered them as the "prices paid for the services of labor."⁵⁹ Bargaining, however, played a vital part in determining these prices. The minimum wage below which workers would not accept for their services was set by the standard of life which Ely defined as "the number and character of wants which a man considers more important than marriage and family."⁶⁰ This principle determined the minimum supply or subsistence of labor. If the number of wage-earners did actually exist in excess of all demand, their services, if fully offered, would have no value, and wages would be zero. If they were few and much desired by employers, only the intenser wants could be satisfied, and the value of labor would be very high. So wages depended like other prices upon two factors, the number of wage-earners and the desire for labor. Ely pointed out that employers tended to pay as a maximum amount to the worker the discounted marginal productivity of the laborer. There was a discount because the employer usually had to advance the wages before the product, out of which the employer reimbursed himself, was sold. "Although the wage is estimated and discounted, it is definitely and

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Op. cit., p. 450.

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Ibid. pp. 452-3.

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Op. cit., p. 414.

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R. T. Ely, Outlines of Economics, First Edition, p. 181

specifically the amount, so far as it can be determined, by which the total product would be reduced if the labor of that particular laborer were not utilized."⁶¹ Each employer would continue to employ additional workers of a given grade of labor (each laborer equal in capacity and efficiency) until the product added by the additional laborer sold on the market for just enough to pay the wage. Between this minimum standard of life and this discounted marginal productivity, Ely found that there was frequently a considerable spread and that bargaining played an important part. "The wages that a laborer actually receives", said Ely, "are determined by an agreement between himself and his employer. Here appear again those 'gains of bargaining' which were mentioned in the discussion of the prices of commodities. But in the case of the wage agreement, if the bargain is between an employer and an individual workman, the advantage is likely to be very largely on one side."⁶² Usually this advantage was on the side of the employer because of his superior bargaining powers such as better knowledge of the market, superior waiting power, secrecy of his position, and usually better training. Ely felt that it was "usually a matter of small importance to the employer whether or not he secures a particular laborer, while the securing of a particular employment is often a matter of the very greatest importance to the laborer."⁶³ Under such conditions the wage was much more apt to be near the minimum that the worker would take than the maximum which the employer would give. As illustrated by the Bakers' Case discussed previously in this chapter, it often became necessary for the state to step in on the side of the weaker bargainers and to exercise the institution of police

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R. T. Ely, Outlines of Economics, Fifth Edition, p. 415.

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Op. cit., pp. 431-2.

⁶³

Ibid. p. 432.

power in order to bring about anything like a fair wage for the weaker groups of labor. Especially was this situation true when labor was unorganized and capital was organized.

As to the necessity for the payment of interest Ely held to an agio theory that the borrower of money had to pay a reward to the lender sufficiently large to overcome the human impatience of desiring goods in the present over the same kind and quantity of goods in the future. On the other hand, interest could be paid because "capital goods under the guidance of entrepreneurs are productive. Mere tools and machinery do not produce value an entrepreneur will not employ capital goods in production unless the prices he expects to get for his products are such as will cover the expenses he incurs by using capital. It is possible to pay interest for precisely the same reasons that make it possible to pay wages and rent."⁶⁴

Actual interest rates then were determined by bargaining between the lowest amount that would encourage individuals to save their capital, and the maximum amount that the borrower would pay rather than do without the opportunity of using the funds. The forces of supply and demand operated in a given market to fix the actual rate of interest at that price or interest rate where the quantities that suppliers would offer just equaled to the amount, that demanders would take. With reference to fluctuating interest rates Ely said: "It would seem, therefore, that in seeking an explanation of the movement of interest rates through long periods of time we must attach especial importance, not to the 'productivity' of capital, nor to the changing effectiveness of roundabout, capitalistic methods of

production, but to the persistent traits of human psychology. 'Impatience,' - 'time-preference,' 'the sacrifice involved in waiting,' are terms different economists use to express this enduring and apparently fairly constant element of human nature."⁶⁵ Of these three shares of distribution -- rent, interest, and wages -- Ely said: "The earlier economists explained the laws of rent and wages, and concluded that capital had what was left, which became thus a 'residual product.' Others have concluded that capital and land exacted returns according to fixed laws, and wages was the residual product. The truth seems to be that no one of the three is a residual product. A return is demanded by each according to fixed laws, and if there is not an assurance of such a return they will not join in production. The true residual product is the economic surplus - which accrues to monopoly of any sort."⁶⁶

As to profits Ely said that in contrast with the routine of systematized industry where all returns were paid out to landlord, laborer, and capitalist, and just sufficed to secure their participation, there were concerns here and there which accumulated a surplus over and above the profits of their rivals in the same lines of business, although they did business under the same conditions, made the same goods, and sold to the same public as other firms. He declared that "special abilities command a rent precisely as does special productivity in land."⁶⁷

"Added to these special rent-producing powers of productivity and ability is a certain element of chance (conjuncture) which affects incalculably the result in particular cases, such as the accidental discovery of a

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Op. cit., p. 473.

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Ely, Outlines of Economics, First Edition, p. 212.

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Op. cit., p. 216.

mine or a process which equally enriches their lucky possessor; the outbreak of war and any combination of events fortunate for the individual fall under this head. Such elements.... cannot be reduced to any assignable principle and interfere as disturbing elements with the operation of general principles. They are, however, of great importance in the distribution of wealth, making many rich and also impoverishing others."⁶⁸

In the fifth edition of his Outlines of Economics Ely said in effect that profits appeared primarily as a residue or surplus of prices over expenses of production, but in the long run this residue or surplus had to be large enough to compensate the entrepreneur for the labor and capital he devoted to the business and for the risk which he assumed.⁶⁹ The entrepreneur was the one who assumed responsibility for the general coordination of land, labor, and capital. The typical or representative entrepreneur got his wages of management in the long run, but he ran the risk of having to close down his plant and a further risk of sustaining a loss even from profits of other years. In this respect wages of management differed from ordinary wages. Pure profits were the amount of profits over and above the amount necessary to keep a man in business for himself rather than hire out to another. Pure profits arose because competition did not work perfectly, because people did not always know and were not always alert to seize the most advantageous course open to them, because the quantity and quality of wants changed, and because the competitive system was neither stable nor thoroughly consistent in structure. There were two general sources of profits: (1) incomplete adjustments in the general price situation at a given time, and (2) changes

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⁶⁸ Ibid. p. 216.

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⁶⁹ Ely, Outlines of Economics, Fifth Edition, p. 483.

in the general price situation over an interval of time. In many business operations both of these situations were blended. Since profits were a speculative residue they varied greatly from year to year not only in particular business concerns and industries, but also for large groups of industries.

In the later editions of his Outlines of Economics Ely unified his ideas of functional distribution by the principle which he called diminishing productivity. He defined productivity not as a physical phenomenon or force but something imputed to the factors of production such as marginal utility was imputed to economic goods.⁷⁰ It existed only in the mind of the entrepreneur, but was none the less real because of this fact, and it controlled the remuneration or price which the factor of production would receive in actual operations. "We impute productivity," explained Ely, "only to goods or services which are the objects of property rights or of analogous rights of control,---such as a man's power to dispose of his own labor. We harness natural forces for the work of production, but we impute productivity only to the harness....Productivity implies merely a relation of dependency between the amount of the product and the use of a particular unit of one of the agents in production."⁷¹ If any one productive factor was allowed to vary but all the other factors were kept constant a point would be reached sooner or later at which, save under the most exceptional conditions, each successive additional unit of the variable factor would increase the aggregate product by an amount less than the last previous unit added. The entrepreneur would cease to add additional units of the variable factor when the point was reached at

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Op. cit., p. 406.

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Op. cit., p. 408.

which the return from the last added unit just paid the expenses connected with adding the unit. "Assuming, in turn, that each of the three factors in production was the variable one," Ely found, "that in each case the law was the same -- the most advantageous adjustment was reached when the product added by the last increment of the variable factor would sell for just enough to cover the increased expense."⁷² Ely arrived, therefore, at the generalization that, "In order to achieve maximum profits, each entrepreneur will endeavor, so far as is practicable, to apportion his use of different classes of productive agents so that the value of the increment of product attributable to the marginal unit of each class will about equal its expense."⁷³

The relationship of marginal products to the distributive shares became the guiding principle in the distribution of wealth. The laborers in a given employment would tend to receive a wage equal to the marginal product of labor, because the wage of each would be the same as the wage of the marginal laborer. The expense incurred by the entrepreneur for any unit of a certain kind of capital goods would tend to equal the value of the marginal product of that capital good. The rent which the farmer would pay for an acre of a quantity of land of uniform quality would tend to equal the value of the marginal product of that kind of land. If competition worked freely, different entrepreneurs in the same market would have to pay the same wage for the same kind of labor, the same price for the same kind of capital goods, and the same rent for the same kind of land, and they would all get the same prices for the same kind of products. The validity of this theory, however, did not depend upon the

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Op. cit., pp. 401-2.

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Ibid. p. 403.

achievement of these results in every individual business concern.⁷⁴

Thus one sees that Ely's basic approach to value is from the viewpoint of the Austrian school, that market value is first and foremost in the minds of individual buyers in the market. Ely, however, gave a secondary importance to costs, because of the fact that in the long run a supply adequate to satisfy the demanders' wants would not be forthcoming unless the costs of the marginal producer were met. Marginal productivity also became a basic principle in the distribution of wealth from a functional viewpoint. But always these principles only set limits and his five fundamental institutions of first rank and his five fundamental forces of second rank⁷⁵ played a major role when it came to actually determining both value and the distributive shares. The fundamental institutions of first rank were: (1) Property, (2) Inheritance, (3) Contract, (4) Vested Rights, and (5) Personal Conditions. Among these fundamentals there was an overlapping and interaction between them. The five forces to which Ely gave second rank were: (1) Custom, (2) Competition, (3) Monopoly, (4) Authority (Public authority especially, although not exclusively), and (5) Benevolence.

In developing his Economic System Ely's approach was that of distribution, having reference to the ownership of goods and dealing with the conditions of things following exchange and transfer. On the one hand distribution related to the ultimate shares of accumulated-wealth and income-wealth owned and received by various social units; on the other hand, it dealt with the shares of income-wealth assigned to the various factors engaged in production. As a preliminary to both orders of inquiry Ely

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⁷⁴ Ibid. p. 403-4.

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⁷⁵ R. T. Ely, Property and Contract, Vol. I, pp. 55-6.

examined historically and critically the fundamentals in the existing
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 socio-economic order.

In economics Ely found three lines of approach to the study of distribution. Personal distribution dealt with property and income among individuals. There was distribution of income among the various factors of production, sometimes referred to as product distribution. This concept differed from the study of individual incomes and was not concerned directly with questions of ownership. Even after one knew how much of the total wealth went for wages he did not know how the individual wage-earner fared. The two fields of inquiry were distinct, and an inquiry into the one did not necessarily afford information about the other. Labor as such did not possess property, nor could one assign any definite amount of accumulated wealth to land or capital. Finally, there were the underlying economic institutions upon which the whole economic structure rested. Ely contended that English and American economists had neglected the study of these fundamentals like private property, contract, and police power. These writers tended to limit distribution to the second line of inquiry, explained in detail above. German economists, however, included the fundamentals within the scope of economics, and at least treated some of them with thoroughness.

In a modern socio-economic order distribution in its broadest sense was a question of private and public property. If society did away with private property then distribution would become wholly a public function. Therefore, it became absolutely impossible to discuss intelligently and thoroughly the distribution of wealth without examining the aspects of

private property as well as the inter-relations of public and private
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 property. Thus Ely used distribution as the point of departure to build
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 his Economic System.

In essence Ely presented his system in the following outline:

- I. The fundamentals in the existing socio-economic order -- as viewed from the standpoint of distribution. This division he treated thoroughly in his two-volume work Property and Contract in Their Relation to the Distribution of Wealth. He subdivided it into nine parts:
 - Part I. Public and private property
 - Part II. Contract and its conditions
 - Part III. Vested interests
 - Part IV. Personal conditions
 - Part V. Customs
 - Part VI. Competition
 - Part VII. Monopoly
 - Part VIII. Public authority
 - Part IX. Benevolence
- II. The separate factors in distribution (differential gains and surplus value had an especially close connection with this volume)
- III. Individual fortunes
- IV. Actual and contemplated modifications of the distribution of wealth
- V. Social progress and wealth distribution

In still broader terms Ely saw three major divisions in the entire field of economics:

- I. General economics -- a preliminary survey of the entire field
- II. Special economics -- particular topics with special reference also to time and place. This he sometimes called economic policy.
- III. Public finance

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Op. cit., p. 91.

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Op. cit., Chapter IV.

He did not regard distribution as a separate field or compartment. When he passed from production to distribution he did not enter a new field, but looked at an old field of investigation from a new point of view.⁷⁹ One might undoubtedly consider all of distribution under the general heading of production; on the other hand he asserted that distribution was the true center of economic inquiries, and that it was possible to treat the whole of production from the standpoint of distribution. The traditional divisions of economic subject-matter indicated different points of view, and for this reason Ely found it desirable to retain them.

The social mind had long been concentrated on distribution, yet its problems remained unsolved; this fact caused uneasiness. Economic scholars had almost exclusively centered their attention upon the scientific and practical aspects of distribution, namely, wages, profits, interest, monopoly gains, wealth, and property. They looked at nearly all of the pressing economic problems chiefly from the point of view of distribution, and apparently assumed the problems of production largely solved. Ely did not contend that economics had given too great attention to distribution, but that they had given inadequate attention to production.

John Stuart Mill expressed the conviction that the laws and conditions⁸⁰ of production partook of the "character of physical truths." In them there was nothing optional or arbitrary, but it was not so with distribution which was solely a matter of human institution. Once man had produced goods he could individually or collectively do with them as he liked. Society could place the goods at the disposal of whomsoever it

⁷⁹ R. T. Ely, An Introduction to Political Economy, p. 213.
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J. S. Mill, Principles of Political Economy, New York, Appleton, 1891, Book II, Chapter I, Laughlin Edition, p. 155.

phased and on whatsoever terms, but the distribution of wealth depended upon the laws and customs of society. Ely's doctrines seemed to qualify Mill's idea because it would apply neither to production nor to distribution. It was an underestimation of the powers of man in production. The human factor was the only truly active factor in production, but this human factor was also a social factor when one applied Ely's institutions and social forces. Man was not only of chief significance in distribution but also in production. With the evolution of economic society, production and distribution grew farther and farther apart. Relationships became less direct, and more indirect--a comparison of the self-sufficient households contrasted with a situation of inter-dependent division of labor.

Ely's viewpoint permitted a discussion of either social statics or dynamics, but he contended that no treatment of distribution was complete without taking into consideration social progress. The statics of distribution referred to the treatment of the present system of distribution without reference to the past or future. By dynamics of distribution he meant the treatment of present distribution in its relations to both past and future.

Although Ely treated distribution under general economics, he made it more than just a part of general economics, since it included the fundamentals of society. The institutions of first rank referred not to a unity but to a complex as did also the social forces or the fundamentals of second rank. At any rate, the phases of the complex were social institutions. The basic ideas involved overlapped. In essence private property was distribution because it distinguished between mine and thine. Inheritance was so important to the present social order that a radical program might

upset the whole order by changing the system of inheritance. These fundamentals were neither fixed, nor constant; economics should not take them for granted; there was always the fact of perpetual change. Any change in one of the fundamentals produced a change in distribution. Thus, man's nature did not have to change in order to improve distribution.

In the past economists might well have distinguished more clearly between forces that were individual and those which were social, as well as the forces that were conscious and unconscious. Competition, for instance, has been largely unconscious. In a given community each groceryman has tried as an individual to get every dollar's worth of business that he could from other grocerymen, but unconsciously, from a social point of view, all of the merchants have cooperated to satisfy the needs for groceries in the community. Individual income has depended, to a large and increasing extent, upon the conscious efforts of society. As society awakened to a realization of this fact social self-consciousness became a great force in wealth distribution; its growth and development became a prime cause for modern movements to better economic conditions. There might be a social consciousness distinct and different in nature from that of the individuals who composed it. No individual in the United States could say of a law passed by Congress, "That is my will," because it would be the expression of no particular individual, but of society at large.

Society has expressed its will through government, law, public opinion, organized private social efforts, and the ballot box. A very noticeable development in modern times has been the rapidly increasing self-consciousness of political society, the state. Nearly all organizations within society, sooner or later have sought state aid, especially in periods of crisis. Social self-consciousness has continually added new

areas of the unconsciously operating forces. The increase in division of labor and the widely extended markets -- mass production and selling -- have been largely responsible for this fact. It has not become a world economy, however, without sectionalism and nationalism. A difference in the enforcement of law between communities or periods of time would modify the distribution of wealth, whether or not there was any aim to achieve such a result. In the past, social authority established slavery, so that even the conditions of toil and human beings themselves were a part of distribution. In fact, many of the causes for slavery such as economic needs of a lower class, insolvency, illegal breach of contract, and forfeiture of pledge, have been economic in nature. Slavery always depended upon defective distribution under which some members of society received little and got in debt.

As to the unconscious forces in society, Ely seemed to think that in all contracts and laws there was a silent clause, understood if not expressed. The effect of this clause was that a law or institution proved valid only so long as it coincided with public conscience, for when it offended social will it became of no effect. This idea harmonized with Ely's Social Theory of Property and Contract.

In keeping with the idea of general welfare, Ely's teleological goal of distribution was that of equal opportunity for all. This concept was not based upon any inalienable rights theory, but upon Christian ethics. His conception contrasted strongly with the theory that existed during the last quarter of the nineteenth century. Andrew Carnegie in an article "Wealth" published in The North American Review for June 1889, summarized well the prevailing theory at the time when Ely was formulating his doctrines. Ralph H. Gabriel in his recent book, The Course of American

Democratic Thought, spoke of Carnegie's philosophy as the "gospel of wealth of the gilded age."⁸² Later this doctrine has been more familiarly called rugged individualism. Carnegie thought that the foundations of modern capitalistic society were four, namely, individualism, private property, the law of accumulation of wealth, and the law of competition.⁸³ Mr. Carnegie said that if one pursued wealth as an end nothing was more ignoble and debasing but if he sought it for larger social ends it was a most glorious adventure.

The gospel of wealth explained poverty as the result of laziness, lack of thrift, vice, or occasional misfortune -- causes completely resident in the individual and in no way connected with exploitation. Poverty was a blessing in disguise for one who rose above it, but a mark of shame for

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The editor of the magazine pronounced this article "the finest article I have published in the Review." Ralph Henry Gabriel, The Course of American Democratic Thought, New York, Ronald Press, 1940, Ch. XIII.

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Carnegie wrote: "This then is held to be the duty of the man of wealth: First, to set an example of modest unostentatious living, shunning display or extravagance; to provide moderately for the legitimate wants of those dependent upon him; and after doing so to consider all surplus revenues which come to him simply as trust funds, which he is called upon to administer and strictly bound as a matter of duty to administer in the manner which, in his judgment, is best calculated to produce the most beneficial results for the community -- the man of wealth thus becoming the mere agent and trustee for his poorer brethren, bringing to their service his superior wisdom, experience, and ability to administer, doing for them better than they would or could do for themselves we have the true antidote for the temporary unequal distribution of wealth, the reconciliation of the rich and the poor -- a reign of harmony, another ideal, differing, indeed, from that of the Communist in requiring only the further evolution of existing conditions, not the total overthrow of our civilization The laws of accumulation will be left free; the laws of distribution free. Individualism will continue, but the millionaire will be but a trustee for the poor Such, in my opinion, is the true gospel concerning wealth, obedience to which is destined some day to solve the problem of the Rich and the Poor and bring Peace on earth, among men good-will." Andrew Carnegie, "Wealth," North American Review, Vol. CXLVIII, June 1889, pp. 656-64.

the individual who remained poor; it was an evidence that he lacked either ability or character, if not both.⁸⁴ This theory made one the sole judge of what were the legitimate wants of those dependent upon him and of what he should do with his surplus funds. When founded upon an assumption of self-interest, society could not expect a result of equal opportunity for all.

Consistent with his general welfare theory Ely would expand the basic institution of taxation in order to weaken the hold of private property and the right of inheritance. He would tax large private incomes and large inheritances to raise funds with which to expand public property at the expense of private property. The expanded public property would take the form of schools, parks, museums, libraries, and playgrounds. In turn, all of these factors would help to bring about his goal of equal opportunities for all.

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Some of the leading preachers of the day defended the "Gospel of Wealth." Russell H. Conwell in his Acres of Diamonds, -- a lecture repeated over 8,000 times -- said, "To secure wealth is an honorable ambition, and is one great test of a person's usefulness to others. Money is power. Every good man and woman ought to strive for power, to do good with it when obtained. Tens of thousands of men and women get rich honestly. But they are often accused by an envious, lazy crowd of unsuccessful persons of being dishonest and oppressive. I say, Get rich, Get rich! But get money honestly, or it will be a withering curse." Quoted from Ralph Henry Gabriel, The Course of American Democratic Thought, p. 149.

CHAPTER IX

Economic Telesis and Reform

As already indicated frequently in this study Ely's Economic System included aims. He claimed that political economy focused attention upon "human relationships." It embraced both statics and dynamics of society. On the one hand it treated the inter-relations of existing economic phenomena including their causal forces, and on the other hand it included a discussion of progressive movements.

He taught that intelligence could guide social growth. At the outset of any earnest study of political economy the economist should make up his mind what he really desired for society -- either the concept of a brotherhood of man or a hierarchy of individuals. Economics dealt with human activities which always had a purpose. What existed now as a mere matter of course was once a future ideal; the is included what was once the ought to be. When a wise man began a course of action he had in mind certain ends which he wished to reach. Similarly in public action man should have in view the goals desired.² Ely frequently indicated what ought to be and what ought not to be. He never hesitated to offer suggestions in line with his aims. He would not so much resist economic currents as guide and direct them in order to minimize the evils

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Ely, Ground Under Our Feet, p. 121.

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Ely, "Private Colonization of Land," American Economic Review, Vol. VIII, September 1918, pp. 522-48.

and to maximize the good.³

By referring to the principles already discussed in this study and by checking Ely's works as a whole one might summarize the basic teleological principles of his economic system as follows: First, human intelligence could and ought to guide economic growth and progress. When study, research, and education furnished more light society moved forward. It might also go backward, but never stood still. The only limit to progress was the perfect goal of all men living together as brothers under God the father. The social goal was to seek a kingdom of righteousness here on earth. Salvation was social as well as individual. Society should seek to reduce to a minimum the wastes of competition and secure steady production; to destroy unwholesome working conditions and make way for technological improvements; to prevent unequal extremes of distribution and guarantee frugal comfort for all; to prevent exploitation by the idle rich and assure an income to all; and to restrict over-indulgence in luxurious living and furnish abundant opportunities for the development of one's faculties. Second, many agencies, using all social institutions, and including harmonious action of individuals, state, church, and science should cooperate to bring about the desired ends. Progress was upward through the family, community, state and nation, and unless it proceeded thus from the smaller to the larger units chaos would result. The perfect order of brotherhood of man was the Christian ideal toward which all men strove without actually reaching it; and out of the striving for this ideal man achieved progress and raised the hope for both individual and social salvation. Day by day the phrase, "All men are brothers," meant more and more. The day would come when no

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Ely, Introduction to Political Economy, p. 85.

man would advocate the sway of sharp practice and hard bargains. Men would put all business relations upon a brotherly basis and inquire what forms of industrial organization and what business methods would accord with the highest standards of right, and would best promote the general welfare. This deepening process of ethical obligations explained many social problems. He looked forward to continual prosperity and abundance with a minimum of essentials of life for all classes and individuals of society -- coming through the idea that each man was his brother's keeper. The more closely a community followed Christian principles, the more generally would prosperity be diffused and wealth accumulated. On the other hand, any nation not following this Christian ideal was already entering upon a course which led to anarchy and barbarism. He hopefully looked forward to world peace between labor and capital and between political nations. His doctrine of brotherhood of man led toward that goal. War was one of the world's most serious problems; and its root cause was in economic relationships. Finally, equality of opportunity constituted the basic aim.⁴ Democracy, extended to include industry as well as politics, was the type of social organization that could best bring about this equality.⁵

In line with these aims and suggested methods of attaining economic

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These ideas represent the author's own summary of the main elements in Ely's Economic System as they have been presented up to this point in the study.

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Ely thought that "Elsewhere the despotic principle has been softened and displaced, but continuing in the economic sphere it is a discordant element; yet it is difficult for most of us to see how for a long time to come, we can wholly dispense with the one-man principle in industry. It should, however, be softened as far as practicable, and men should be gradually trained to understand industrial republicanism."

Ely, Introduction to Political Economy, p. 236.

goals, Ely's writings contained numerous suggestions for specific reforms in connection with the most vexing socio-economic-political problems. Many of the suggestions and plans overlapped, partly because of the complexity of forces in the economic field. Besides the reforms already treated in previous chapters only two further specific proposals shall be mentioned: business crises and land reform.

Regarding business crises he made definite suggestions for getting out of hard times, and for maintaining prosperity. His proposals involved both the individual and society, centering largely around (1) a peace-time army, (2) islands of safety, and (3) improved land policy. In the peace-time army Ely sought the benefits of the regular army without its evils. Society would expand this army in times of crisis, and reduce it to a skeleton in times of prosperity. The general staff would include as capable men and women as could be found in public or private life. The workers would engage in useful occupations, more particularly in those types of work which otherwise would be done only to a limited extent, if at all.

The army would have a valuable objective of affording discipline of life and cultivating in youth the spirit of service to the community. City life of today lacked adequate discipline for youth. He would require every one, men and women alike, to give one year of compulsory service to the government, but not strictly of military nature.⁶

Ely thought part-time farming in Belgium, France, and Massachusetts had helped many of the artisan classes. He also suggested diversification of training to enable the worker more readily to adapt himself in times of stress. As a solution for depression he spoke of a more

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Ely gave suggestions and details for the organization and work of his peace-time army in Chapter XIII, of his book, The Great Change. R. T. Ely and Frank Bohn, The Great Change, New York, Nelson, 1935, pp. 256-64.

widespread ownership of debt-free land. American people should live on the land as many people did in France.⁷

Besides land ownership free of mortgage indebtedness Ely stressed certain proposals of land reform. First of all, the nation needed to formulate a land policy, a more or less consciously developed program of social control of natural resources like minerals, water power, transfers and leases -- all relationships among men, both the economic and social aspects of land.⁸ The United States lacked such a policy. No other great nation was so reckless in giving away valuable resources and privileges -- a natural fruit of a dominant individualism, coming from two sources: the frontier life which was often in advance of the establishment of law and order, and the world-wide sweep of the eighteenth century social philosophy. A wise social policy would have granted only surface rights in the land and reserved the mineral rights. Other similar policies that society should have been following were: to have government control of the mail service of railways, to limit the time of public utility franchises, to reserve the banks and shores of streams and harbors, and to educate the public with regard to the social needs of conservation.

Society should not perpetrate ancient wrongs. Without injustice new and wiser policies could replace old and mistaken ones by exercising the right of eminent domain, the right to tax, and the police power. If society has foolishly parted with property it should repurchase it; if it had granted perpetual rights of exemption from taxation the remedy was to pay a fair price for the right.

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Ely displayed enthusiasm for the French islands of safety as he called the part-time farming system in France. *Op. cit.*, pp. 206-8.

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R. T. Ely and E. W. Morehouse, Elements of Land Economics, New York, Macmillan, 1932, Chapter XIV.

As early as 1888 Ely recognized the importance of the land question. The amount of land in proportion to needs was large, and then it was a problem of the future. However, it was sufficiently a question of the day to warrant indignation at the way in which public domains were squandered and empires of valuable lands were conferred on private corporations.⁹ In 1918 he said that land was the chief public utility -- the foundation of all life. As land became scarce the policy of laissez faire with respect to land ownership broke down. Society needed land commissions "to exercise not precisely the same functions which our railway and public utility commissions did but analogous functions."¹⁰ Although Ely has not been altogether consistent in his attitude toward land as a public utility and natural monopoly, he has always insisted upon the importance of land. Most of his time since the early twenties has been devoted to research and efforts upon this problem. This large social problem was in his mind when he founded the Institute for Research in Land Economics and Public Utilities.

For the Institute there were four main divisions of research: (1) General Land Economics, (2) Urban Land Economics, (3) Public Utility Economics, and (4) Taxation. The great practical purpose of the Institute was to join in the labors of those who were striving and hoping to abolish poverty.¹¹ The motivating idea was to gather together existing knowledge, interpret it cautiously and objectively and conduct researches in order to go forward to new and better generalizations.¹²

⁹ R. T. Ely, Problems of Today, pp. 112-3.

¹⁰ R. T. Ely, "Private Colonization of Land," American Economic Review, 1918, p. 543.

¹¹ R. T. Ely, Ground Under Our Feet, p. 237.

¹² Op. cit., p. 239.

Land, the original source of wealth was utilized to supply food, shelter, clothing, recreation, and culture. Land economics was, therefore, as broad as the earth, and covered multitudes of minute facts of economic interest. Because it was such a broad subject and because it touched life in so many ways the practical problems were numerous. In land questions lay a basic cause for war, especially when nations lacked land policies. If the world expected to avoid war, nations would have to plan the distribution of natural resources in order to guarantee a supply of food and raw materials for each nation. They would have to reconstruct national boundaries to accommodate the best uses of land. The planning for land-use was basic to all, and without sufficient land policies all other efforts were vain.¹³

Land was not furnished in sufficient quantities to satisfy all wants. Prices of land reflected its economic scarcity just as in the case of other economic goods. Because human beings looked toward the

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In other branches of economics Ely found the underlying principles and facts of land economics. He enumerated some of them as follows:

(1) Basic economic facts used in all economic analyses:

- a. Motives or causes for economic activity, which are found in habit, custom, human instincts, rationality or social control,
- b. Social institutions as private property, contract, and vested interests,
- c. The price system and its incentives,
- d. The distinction between net and gross incomes,
- e. Individual differences as to economic ability.

(2) Basic principles:

- a. Scarcity,
- b. Anticipation or speculation,
- c. Capitalization,
- d. Substitution,
- e. Proportionality.

R. T. Ely, and E. W. Morehouse, Elements of Land Economics, New York, Macmillan, 1932, pp. 37-45.

future, future outlook became basic for land valuation just as with other goods and services. The permanent nature of the services of land made the element of anticipation even more important in this field than in other economic relationships.

The capitalization principle revealed the tendency to link net income with a capital value which represented the price of land. If the net income was five dollars per acre, this sum represented the interest on a sum of one hundred dollars at a rate of five per cent. The substitution principle showed the tendency for low priced commodities to take the place of higher priced commodities when the satisfaction from each was approximately the same. This principle explained the shifting of land from one use to another, valuation of land, and the formulation of land development policies and taxation.¹⁴

When the student has faced the question, as to the purpose of economic science, he has had a difficult matter to decide. Ely boldly asserted economic teleosis and set as the goal of reform the perfection of man into a great democratic brotherhood where each individual had an equal opportunity to develop to the full extent of his capacity. His concept, however, would result in anything but equality, because he recognized both the fact of individual differences and the desirability of social recognition of such differences. Abstract ideas of brotherhood and social solidarity have sounded good on paper and from the pulpit, but when one became specific in the South to talk about the brotherhood of Whites and Blacks, in Nazi Germany of the brotherhood of Jews and Germans, or in militaristic Japan of the brotherhood of Japanese and Chinese, then he became impractical, idealistic, and was accused of not understanding basic racial problems. Religionists have been interested in the

salvation of the poor, but when it came to sharing pews with them in the wealthy churches, it became a different matter. A redeeming feature of Ely's argument appeared in the thought that religion and Christian ethics furnished the social cement for a broad, long-run, educational effort gradually working in the desired direction through the cooperation of all social institutions. This idea of progress was neither simple nor easy, but, on the contrary, very difficult and complex. As long as a considerable element of society took religion and the church seriously there was hope for the success of such a program. At any rate it seemed a stronger argument than one based upon enlightened self-interest, rationalism, trusteeship of wealth, humanitarianism, or pure science.

When one said that economics had no purpose it sounded like saying that neither the individual nor society had any purpose. When the scientist assumed nothing good or bad, he might as well have assumed neither male nor female in the study of man. Men have always been born into a moral or immoral atmosphere just as they have been born into a physical environment. Men have escaped the climate of thought into which they were born either by rejecting it outright or by building up defenses against it; otherwise they got deeper into it by accepting it. One might as well attempt to develop a science of physical geography, but exclude any consideration of climate and atmospheric conditions. When another scholar said he would ignore God and religion, so far as a great multitude of individuals was concerned, he might as well have said he was going to ignore food as a necessity of life. Social scientists could no more ignore religion and its effects upon society than the religionist could disregard science and its effects.

Ely was wise in that he did not reject the church or any other social institution that could be used effectively to bring about progress, so long as he proposed to center his system in social institutions, and reform. His program included a cross-section of social interests and social forces. A difficulty of many social reformers, such as Henry George, appeared in their over-simplified program. The pure scientist overlooked the fact that many people took science for granted or failed to believe in it wholeheartedly, just as some scientists took religion for granted or tried to discredit it; the rationalist forgot that many people lived more largely by suggestion than by reason; the intellectual overlooked the fact that a considerable element of man's behavior was determined by emotional reactions; the anti-religionist disregarded the fact that a great mass of society still recognized God, even though their works did not strongly prove their faith; the religionist frequently shut his eyes to the spiritual indifference of men on the street; the humanitarian discredited too much the will to exploit and rob; the money-grabber missed the fact that the world had much that was lovely and generous in it; the lawyer who dealt constantly with conflict failed to see the harmony of life; the pacifist saw not the sinister intentions of treaty jumpers; the democrat accredited nothing good to autocracy; the individualist over-valued competition; the collectivist discounted too heavily the unconscious cooperative results of the automatic forces of economics and society. Ely saw the complexity of factors, but may have shown an exaggerated faith in man's understanding and ability to cope adequately with the complexity.

In the complex economic and social life of the twentieth century, these over-simplified economic proposals to solve social ills might remind one of the reactions of the "Six Blind Men of Industan" who went to see an elephant. One felt the elephant's ear and exclaimed

that he was like a fan; another swung on the elephant's tail and replied, that the elephant was like a rope; the one who fell against the elephant's side explained that he was like a wall; but the one who felt of the elephant's leg likened him to a tree; and so on the six of them. Each man had a different viewpoint and a different conclusion; each was partially right, but entirely wrong, because his individual experience and knowledge was too restricted. As each student has faced social problems like poverty, crime, unemployment, disparity of prices, agricultural surpluses, and declining standards of living he has given his own particular diagnosis and remedy. Coming from them in recent years one has heard such a multitude of remedies that he has been reminded of the Bible story of the confusion of tongues. Economic and social experts have found no harmony of opinion but conflict and confusion. They have shouted causes and remedies, many of them centering around single ideas such as over-production, under-consumption, agricultural subsidies, public works, cooperation, cultural lag, technological progress, tariffs, social security, government ownership, profit-sharing, collectivism, individualism, religious revival, education, science, two-hundred-dollar-a-month pensions, government guarantee of costs, collective bargaining, conservation, etc. All of this babel of tongues might tend either to push one closer to Kly's viewpoint of complexity of factors, one step at a time, look and see, less specialization of study and activities, and a closer tie-up of all the social sciences, or it might impel him to reject the whole mixture of science and reform. One might see as never before the need to separate the science from the art of economics.

Kly may have had an exaggerated faith in realistic democracy, especially in his youth. There has never been any assurance that a democratic vote-getter would be an economist, a social reformer, or a

business administrator. Too often, in fact, one has seen the opposite situation in practice. Although Ely was a frequent adviser to government agencies, a sort of early brain trustee he never actively participated in politics as did William Graham Sumner who was an agent in trying to settle the political dispute that raged across the nation from Baton Rouge to Washington in the crisis of the disputed national election of Tilden and Hayes. On the other hand Sumner typified that scientist who was too much persuaded by Darwinism, and saw man only as an intellectual animal engaged in a struggle for existence. Ely saw man with his altruism, humanitarianism, and goodwill working toward a goal of social progress. To the strict evolutionist it might easily seem illogical to repudiate the absolutism of the orthodox economists and at the same time hold on to the orthodoxy of Christian ethics, but this was what Ely did. A vital part of Ely's System was in the fact that he recognized the powerful influence of Christianity among men. After all, as Ely said, it was largely a matter of viewpoint, whether one agreed with him, the orthodox economists, or any other particular group. But so long as so-called science excluded ethics, philosophy, and religion from consideration, one should think twice before following the colossal conceit that man was a complete architect of his own destiny.

Chapter X

Conclusion

In evaluating Ely's contribution to economic thought the author has tried first of all to understand his viewpoint and goal; and then, to discover his position among contemporary thinkers. As has been shown throughout the study Ely held to a few basic doctrines; namely, that ¹ man, not materials, was the heart of political economy, that fundamentally ² men and races are one, that economic relationships could not be separated ³ from other social phenomena, and that, in the interests of general welfare, all social institutions were working together toward a brotherhood of men in which each person had an equal opportunity limited only by individual differences in capacity. With the Christian religion as a social cement he attempted to construct an Economic System of progress. Ely's writings as compared to his contemporaries have shown a curious mixture of radicalism and conservatism.

To appreciate the middle-of-the-road position of his Economic System one should visualize the American social setting of the last two decades of the nineteenth century, the period of time in which Ely established himself as an economist. It was the gilded age of capitalism--capitalism triumphant--and not a period when capitalism was on the defensive. It was capitalism founded upon the Gospel of Wealth of Andrew Carnegie and Russell H. Conwell. It was the grab-and-hold period following the Civil War, with such men as Jay Gould, Jim Fiske, Daniel Drew, and John D. Rockefeller holding dominant places; it was characterized by

¹ Ely, Introduction to Political Economy, p. 25.

² Ely, Ground Under Our Feet, pp. 87-88.

³ Cf. Chapter III.

war of the marketplace with its frontal attacks, flank movements, and surprises; it was the era of the railway buccaneers, the swindlers of credit mobilier, and the exploitation of ignorant immigrants; it was the age of the robber barons. The trusts were peace areas in the war of markets. Rugged individualism was governed by ethics of expediency. Capitalism was the most dominant note in American life at the time including the following essential elements: (1) Trust was placed in the individual man who was demoted or discarded if his ability failed or his character proved inadequate. (2) Competition, a pitiless scheme of testing, discovered the strong and weak leaders. To the strong, society gave autocratic power to control business, and wealth for the benefit of the community. (3) The voice of the able few counted for more than that of the masses. (4) Of the political state, man demanded protection of property, adequate police duty, sound currency, tariffs against foreign competitors, and a court system that restrained or nullified social legislation, but placed no faith in it as a constructive agency. (5) Advocates of capitalism pointed with pride to the progress under laissez faire, and promised prosperity if it were continued. The natural aristocracy of leadership, chosen in the economic field by competition, always resulted theoretically in the best interests of society. This economic philosophy was leading millions of farm boys to the city, and equally numerous European immigrants to American shores; it was encouraging the capable and educated to go into business. The philosophy, that power lay in wealth, was paralyzing labor; individual well-being was considered of more importance than social well-being; abundant success literature was based upon the simple formula: "Be honest and work hard." Religion was important but science had become the catchword of

the New Thought--the God of the New Day. Darwinism held a central position in the climate of opinion in which American liberals and intellectuals lived. All the evils usually attributed to government were also found in business: bigotry, inefficiency, bribery, spoils system, and exploitation. The rugged individualist thought it was all right for one to try to better himself so long as he stayed in the economic realm; but he should neither attempt to change the economic system nor to seek aid in politics.

William Graham Sumner, a professor of political economy at Yale University, was a leading champion of laissez faire during the decade 1880 to 1890. Sumner took no stock in Ely's brotherhood of man and social solidarity. For him the social cement was antagonistic cooperation; civilization had evolved from hunger, sex love, vanity, and ghost fear; these four ultimate human nature drives forced primitive man to cooperate. Sumner disliked the very term sociology, and saw in what Lester F. Ward had helped to found the hunting ground of soft-headed ex-ministers, and all who saw utopia beyond the next range of hills.⁵

In the light of the above situation Ely was indeed a radical, but in other matters he remained a conservative. While many leading scientists of his time were turning away from religion, he made it central in his Economic System. He would use science only as a tool. He accepted the theory of evolutionary changes in society, as opposed to absolutism, but stopped far short of the Darwinism of many younger social scientists, educators, and leaders of the time, including Lewis H. Morgan, Lester F. Ward, Henry Adams, Robert Ingersoll, Andrew D. White, and Mark Hopkins. Ely

believed in a positive state, and in man's efforts to direct and determine to a certain extent his own destiny, but by no means went all the way with August Comte who believed that the nineteenth century ended the theological stage in the progress of humankind, and ushered in an age of science, by which alone man could master his own destiny. Although Ely proposed a very sharp break with the doctrine of laissez faire, and although he saw much good in socialism, (most economists in America could see nothing good in it), he could not go all the way with socialists to destroy capitalism and make the state the main factor in production and distribution. He made the state dominant only in a limited field of natural monopolies where laissez faire had already proved a failure. Although he believed strongly in democracy of the American type, he could not agree that it was the end of social evolution. Even though he believed in a positive state, he vigorously preached individual responsibility. He criticized the organized church for her shortcomings, but believed strongly in it as a great cooperative agency with all other social and divine institutions for the salvation of both society and the individual. He believed in evolution but not to the extent of Ingersoll, that nature "produces man without purpose and obliterates him without regret."⁶ While Ingersoll saw the holy trinity of science, -- reason, observation, and experience -- leading man to "progress and perfection,"⁷ Ely looked to a higher social engineer than himself. Progress would come in the direction of a predetermined way, and man's ability to reason was not sufficient in itself to make a social engineer. As a humanitarian, Ely was unwilling to make humanity his religion as did Comte,

⁶ Robert Ingersoll, Works, Dresden Edition, New York, 1900, Vol. I, pp. 59-60.

⁷ Op. cit., p. 86.

Frothingham, Whitman, Ingersoll, and others. Henry George would have the state take only one all important positive step; Simon N. Patten and Lester P. Ward would make the state a great social laboratory; W. G. Sumner would work through the folkways and individualism; Edward Bellamy would have totalitarianism; but Ely would look and see, in order to take one step at a time, in any direction toward well-being of society and away from ill-being. Bellamy and George believed in social magic, Sumner in economic determinism, Ely in progress toward Christian ideals. Men like Sumner and Walker constantly warned that man interfered with economic laws at his own peril. Ely never went all the way with the rationalists that man, by relying wholly upon reason and by using the state as an instrument, was complete master of his fate; neither was he willing to abide by the economic and social determinism of the English Classical Economists and their American counterpart found in Sumner, Walker, Wells, Perry, and Newcomb. Ely believed in social planning but did not believe that it would solve all social ills.

John Bates Clark believed that society should rely wholly upon the free competitive market, and fight all monopoly to keep in line with progress, whereas Ely would divide the field of business, leave one part of it for the free competitive market, and recognize the other part as inherently monopolistic. Both Ely and Clark saw man living in an era of scarcity, while Patten thought scarcity and pain dominated the days of the classical economists, but that America had passed out of that era into one of abundance and pleasure. Growing out of unrestrained individualism Ely recognized and opposed the monopoly practices of robber barons, the exploitation of immigrants and unorganized labor, municipal and political corruption, undue concentration of wealth and income, and a philosophy that entirely neglected social well-being. In the loss of property, socialism brought great social danger, bitterness between classes,

great restriction of freedom and initiative, and a serious check to economic progress. Thus, Ely's socialized individual occupied a middle ground between two extremes.

Since Ely was apparently never deeply interested in a pure science of economics, but rather in the great Art of men living together, his main contributions have been in connection with social dynamics, economic reform, distribution of wealth, and fundamental social institutions that have shaped and controlled social change.

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BIOGRAPHY

Samuel Elliott Cranfill was born on a farm in Anderson County, Kentucky, on September 18, 1896. He completed his elementary training in a rural school and graduated from Kavanaugh High School, Lawrenceburg, Kentucky, in 1913. In September of that same year he entered Georgetown College, Georgetown, Kentucky, and received the A. B. Degree from that institution in 1920. He was awarded the M. A. Degree from the University of Michigan in 1925, and has completed summer sessions there for 1922, 1923, 1924, 1925, and 1937. He attended Louisiana State University for the year 1938-39 including the summer session.

Since 1920 he has actively engaged in the teaching profession, serving for five years, 1920-25, as principal and coach of secondary schools in Kentucky; eleven years, 1925-36, as Professor of Economics and Director of Teacher Training, Bowling Green College of Commerce, Bowling Green, Kentucky; and since 1936, as Associate Professor of Economics and Sociology at Mississippi College, Clinton, Mississippi.

In June 1920 he married Miss Elma Beatty of Franklin, Kentucky, and is the father of two daughters, one fourteen years of age and the other six years of age.


EXAMINATION AND THESIS REPORT

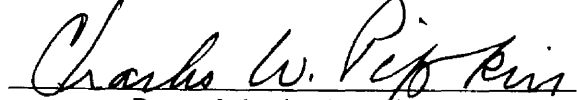
Candidate: SAMUEL ELLIOTT CRANFILL

Major Field: ECONOMICS

Title of Thesis: THE CONTRIBUTIONS OF RICHARD T. ELY TO ECONOMIC THOUGHT

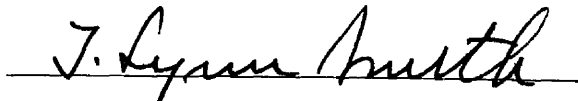
Approved:



Major Professor and Chairman

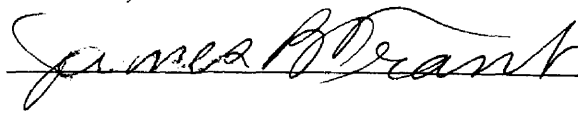

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EXAMINING COMMITTEE:











Date of Examination:

May 8, 1941